**FINANCIAL LITERACY IN INDIA**

Prof. Syed Ali Dr. Urooj Afshan Jabeen

Former Professor of Economics Assistant Professor of Economics

Mulungushi University Govt. Degree College for Women

Kabwe, ZAMBIA NALGONDA – 508001 INDIA

Mobile: 00917036873161 Mobile: 00917799668960

**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 foreconomic growth. The study also suggested for developing global guidelines and standards for financial literacy and implement those rules and standards.

1. **INTRODUCTION**

The global literacy rate is high. The literacy rate for all males and females that are at least 15 years old is 86.3 percent. India does best on the enrolment ratio at 82.3 percent which is close to the world average- ranking 94th. But the world financial literacy is low. The global financial literacy is 33 percent only. This means that around 3.5 billion adults globally, most of them in developing economies, lack an understanding of basic financial concepts. 35 percent of men and 30 percent of women are financially literate. These global figures conceal deep disparities around the world [1]. In India the general literacy rate is 77 percent but the financial literacy rate is 35 percent [2].

Financial literacy involves measuring a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being. [3]. Financial knowledge is an important component of financial literacy, necessary for undertaking activities , such as, following news about the economy and financial land scape, well informed financial decisions. A basic knowledge of financial concepts and the ability to apply numeracy skills in a financial context ensure that consumers can act automatically to manage their financial matters and react to news and events that may have implications for their financial well-being [4].Financial literacy is low across the sampled countries and economies. The scores suggest that there is plenty of room for improvement across all the elements of financial literacy [5].Financial literacy means ability to process economic information and make informed decisions about financial planning, wealth accumulation, pensions and debt [6].There are gender differences of financial literacy [7] and state-wise differences in the financial literacy in India [8].

The present study focusses on present status of financial literacy in India and other parts of the world, state-wise and gender-wise differences in financial literacy in India and suggestions are given to improve the financial literacy.

1. **OBJECTIVES**

The specific objectives of this Chapter are to :

* Find out the status of financial literacy in India and other parts of he 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
* Know prospectus and challenges of financial literacy.

1. **REVIEW OF LITERATURE**

People’s behavior on the financial market is determined and also conditioned by age, status and nature of employment, level of education, level of income, number of family members and experience in financial management [9].Financial knowledge, behavior and attitude were used to measure financial literacy which was also used by OECD.[10].Financial literacy refers to the knowledge and understanding of concepts and risks related to financial matters and the skills and the level of confidence to put in such knowledge and understanding in order to make effective financial decisions across a range, to enhance the financial well-being of individuals and community and to enable participation in economic life[11, 12].This definition is now globally acknowledged and was also endorsed by G20 leaders [13].

The general awareness about financial planning tools and techniques among women remains poor. The study concluded that women are better in terms of financial attitude and behavior as compared to financial knowledge [14].Financial inclusion and financial literacy is a great step towards achieving women empowerment. But to achieve this the government has to provide environment in which banks are free to practice the necessary innovations to reach the lowincome women without losing their profit [15].The development of financial literacy helped the women for making better financial decisions, proper utilization of financial services and products It also helped in wealth accumulatio and financial well -being which led to their personal development as well as social development. [16] Financial literacy is very low around the world, irrespective of the level of financial market development. Women are less financially literate than men. Financia literacy is critical to retirement security.[17].

1. **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].

**5. DATA ANALYSIS AND RESULTS**  **A. 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 was33 percent.

**B.. 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 |
| Uttarakhand | 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.

1. **Gender Differences in Financial Literacy**

Table ( 3 ) shows women’s overall ranking by country

**Table3: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) reveals that Brazil had a highest level of financial literacy at 50.2 percent followed by Australia at 48.8 percent, Mexico 47.8 percent and USA with 44.8 percent. India was ranked at 19 with only 36.8 percent of Indian women as financially literate. Brazil topped in overall rankings with Australia Mexico, the United States and New Zealand standing as top five.

1. **Economic Importance of Financial Literacy**

There is close relationship between financial literacy and behavior. The conventional economic approach to saving and consumption decisions posits that a fully rational and well-informed individual will consume less than his income in times of high income and will be saved to support consumption when income falls. The theories propounded by Modigliani [22] and Friedman [23] revealed that the consumer is poised to arrange his optimal saving and decumulation pattern to smooth marginal utility over his lifetime. Many studies have shown how such a life cycle optimization process can be shaped by consumer preferences, the economic environment and social safety net benefits, among other featuresBrowning and Lusardi [24] Skinner [25], and Attanasio and Weber [26]. Theoretical models incorporating such key aspects of consumer behavior and the economic environment implicitly assume that people are able to formulateand execute saving and spend-down plans, all of which require expertise in dealing with financial markets, knowledge of purchasing power and the capacity to undertake complex economic calculations [27].

The link between financial knowledge, saving and investment behavior was explained by Delavande, Roh Wedder and Willis [28], Jappelli and Padula [29], Hsu [30] and Lusardi, Micliand and Mitchell [31].

The literature to date has showed that around the world many people are financially illiterate. Econometric models and experiments have done much to confirm the casual impact of financial literacy on economic decision-making and to separately identify this effect rom other factors, including education.

1. **Steps taken for Financial Literacy**

Reserve Bank of India (RBI)has been working towards financial literacy. The Reserve Bank of India has implemented a project called “Project Financial Literacy” with the aim objective of disseminating information regarding the financial and banking concepts in easy and simple language. A financial Education Site was launched in November 2007 with the objective of creating the interest of children in finance and the related concepts have been explained through films, cartoons, games etc.. The RBI staff has been visiting the villages for imparting financial education to the rural India. between April 2012 and March 2013. 718 Financial Literacy Centre’s have been set up to enhance financial capability and create more confidence regarding their financial affairs.

The RBI 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 . The approach focuses on Content, Capacity, Community, Communication and Collaboration. The Technical Group of Financial Inclusion and Financial Literacy and Financial Stability and Development Council is cooperating to ensure the implementation.These policies are in the right direction to make India a financially literate country.

The RBI has undertaken a project titled “Project Financial Literacy”. Its objective 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. RBI conducted a week long programme every year since 2016 to educate people on the importance of financial awareness and well being It has been creating awareness among people about savings, planning and budgeting of prudent use of digital financial services. The theme of RBI’s financial literacy week for the year 2023, which was conducted from February 13 to 17. Was “Good Financial Behavior – Your Savior” This theme aligns with the overall strategic objective s of the national strategy for financial education 2020-2025, which aim to build financial resilience and well-being [32].

In 2012, Financial Stability and Development Council (FSDC) had formulated a National Strategy on Financial Education to spread awareness among masses about basic questions such as, why one should invest?, why one should borrow from bank? Under this, FSDC had proposed to make financial literacy an official responsibility of the industry stakeholders such as financial institutions, banks and regulators including RBI etc.,

The RBI has been conducting Financial Literacy Week every year since 2016 to prepare financial education messages on a particular theme across the county. Banks have been advised to disseminate the information and create awareness among their customers and general public. RBI has undertaken mass media campaign during financial literacy week

Securities Exchange Board of India (SEBI) has been established to protect the interest of investors. .SEBI is very active regulatory body in terms of financial literacy. In 2003, SEBI started a campaign which is known as Securities Market Awareness Campaign to educate investors. SEBI conducted various work shops across the country.

Insurance Regulatory and Development Authority (IRDA) has taken various initiatives in the area of financial literacy. Awareness programmes have been conducted on television and radio and simple messages abo tights and duties of policyholders, channels available for dispute redressal etc., have ben disseminated through television and radio.

The Pension Fund Regulatory and Development Authority (PFRDA) engaged in spreading social security messages to the public. PFRDA has developed FAQ on pension related topics on its web, and has been associated with various nongovernment organizations in India in taking the pension service to the disadvantaged community.

The commercial banks have initiated various measures for creating awareness through Financial Literacy and Counseling Centers and Rural Self Employment Training Institutes on financial literacy. The objective of these centers is to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counseling people who are struggling to meet their repayment obligations and help them resolve their problems of indebtedness, helping in rehabilitation of borrowers in distress etc.,

Financial literacy initiatives by government and non-government agencies played a decisive role to strengthen financial inclusion and consumer empowerment in India. Government of India has been taking effective measures to ensure maximum financial literacy.

**6. 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 ate 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 ate with 50 percent. The all India general literacy rate was 77 percent but the financial literac7yy ate 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.

It is suggested that all the stakeholders, including policymakers should educate and improve the level of financial literacy for bright financial decision making. Besides Government, R.B.I, the NGOs and SHGs should contribute for improvement in financial education of the people. There is need to develop financial literacy modules through National Centre for Financial Education that covers financial services in the form of Audio-Video contents,/booklets etc., These modules should be prepared separately for children, young adults, women, new workers/entrepreneurs, senior citizens etc., There is need for co-operation and coordination between different stake-holders of providing financial education. There is need to develop global guidelines and standards for financial literacy initiatives and implement those rules and standards. A National strategy should be prepared to increase financial literacy and implemented by the government, the private sector and the non-profit sector.

**References**

[1] The Standard an Poor’s Ratings Services Global Financial Literacy Survey 2014.

[2] RBI National Strategy for Financial Education Report 2020-25.

[3&12] Atkinson, A. and Messy, F. A. ”Measuring financial literacy: Results of the OECD. OECD working papers on finance, insurance and private pensions,2012. 15.

[4] National center for financial education , financial literacy and inclusion in India, Final report on the survey results 2019. Page: 9.

[5] OECD “OECD/INFE2020 international survey of adult financial literacy report, 2020.

[6&27] Lusardi, Annamaria and Oliver Mitchell “The economic importance of financial literacy theory and evidence, working paper 18952, National Bureau of economic research, Cambridge,2013.

[7] Chetana Singh and Raj Kumar “Financial literacy among women, Indian scenario” universal journal of accounting and finance 5(2)2017. 46-53.

[8] RBI National strategy for financial education report 2020-25

[9] Abdul Azeez, N.P and Akhtar, S.J. “Financial literacy for rural India: A case study of Aligarh district”, International journal of humanities and social sciences research, 6(1) 2020: 89-95.

[10] Agarwal, B.D. Bruitman, L.J. and Chandrasekhara, K. “Analysis and performance of fiber composites”, John Wiley & Sons, 2017.

[11] OECD “PISA 2018 Assessment and analytical framework” 2019.

[13] OECD “G. 20/ OECD INFE policy guidance on digitalization and financial literacy and education trust fund. 2018, 1-100.

[14. Akshita Arora “Assessment of financial literacy among working Indian women”. March 2016.

[15]Deka, Pratisha, Padmasri “Financial literacy and financial inclusion for women empowerment- A study, IJAR, 2015, 1(9), 145-148.

[16] Mathivathani, V., and Velermani “Financial literacy among rural women in Tamilnadu”, IJAR, vol. 4, issue 12, De. 2014.

[17] Lusardi, A. and Mitchell, O.S. “Financial literay around the world: An overview, 2011.

[18] VISA “Visa’s international financial literacy barometer” 2012.

]19& 20] S and P Global Fin Lit “The standard and poor’s ratings services Global financial literacy survey, 2014.

[21]VISA “Visa world financial literacy survey, 2012.

[22] Modigliani Franco and Richard Brumberg, “Utility analysis and the consumption function: An interpretation o cross-section data” In post Keynesian economics, Ed. K. Kurihara, New Brunswick, NJ; Rutgers University press: 1954, 388-436.

[23] Milton Friedman “ A theory of consumption function”, Princeton University press, 1957

[24] Browning, Martin and Annamaria Lusardi “Household saving: Micro theories and micro facts”, Journal of Economic Literature, 1996,34: 1797-1855.

[25] Skinner, Jonathan, “Are you sure you are saving enough for retirement?” Journal of Economic perspectives summer: 59-80.

{26} Attanasio, Orazio and Guglielmo Weber, “Consumption and saving: models of intertemporal allocation and their implications for public policy.” Journal of Economic literature, 2010, 48” 693-751.

[28] Delavande, Adeline, Susann Rohwedder and Robert Willis, “Preparation for retirement, financial knowledge and cognitive resources”, 2008 MRRC working paper series 190.

[29] Jappelli, Tullio and Mario Padula, “Investment in financial knowledge and saving decisions. 2011 CSEF working paper 272, University of Salerno..

[30] Hsu, Joanne, “Aging and strategic learning: The impact of spousal incentives on financial literacy. Network financial institute working paper 2011- wp-06, Indiana State University.

[31] Lusardi, Annamaria, Pierre-Carl Michand and Olivia S. Mitchell, “Optimal financial literacy and wealth inequality , 2013, NBER working paper 18669.

[32] RBI, “Outlook money”, February 2023.