

## **Current Scenario of Financial Literacy in India**

**Samriti Kamboj**

*Assistant Professor, C.M.R.J G. College, Mithi Sureran Ellenabad,  
Sirsa-125055 (Haryana)*

### **Abstract**

Financial literacy is the ability to understand finance. It refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finance. Several empirical studies have found that poor risk diversification; low levels of savings, high cost debt and no financial plans for retirement are the outcomes of lack of financial literacy. The 2012 edition of Visa Global Financial Literacy Barometer demonstrated that “India is lagging behind the global standard and it secured 23rd slot in the over-all ranking.” The need of the hour is to strengthen financial education initiatives and comprehensive research should be done on financial literacy in India. The present study aims at exploring the current scenario of financial literacy in India.

**Keywords:** Financial Literacy, Risk Diversification, RBI Initiatives, Bank Credit, Savings.

### **1. Introduction**

Financial literacy is the knowledge and understanding of the financial concepts such as earning, spending, saving, budgeting, borrowing, investing and applying it with confidence for making effective decisions in the financial market to manage personal financial resources efficiently. The Organization for Economic Cooperation and Development has defined Financial Education as “the process by which financial consumers/investors improve their understanding of financial products and concepts and risks, and through information, instruction and/or objective advice, develop the skills and confidence to become aware of (financial) risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being and protection.”

Financial education, financial inclusion and financial stability are three parts of an integral strategy, as shown within the diagram below. Whereas financial inclusion works from supply side of providing access to numerous financial services, financial education feeds the demand side by promoting awareness among the individuals regarding the wants and benefits of financial services provided by banks and alternative establishments. Going forward, these two ways promote better financial stability.



In this complex financial world, governments of all the nations are deeply concerned about improving the levels of financial literacy amongst their citizens. Due to financial market innovations and deregulation, the number of financial products has increased considerably with a large number of options within each product making it difficult for a common man to use/invest his funds efficiently in order to maximize his wealth. A trade-off is also required to be made between income, expenditure and savings by the people. Financial literacy has become an essential life skill to enable individuals to make better decisions in the modern financial marketplace.

## 2. Review of Literature

Financial literacy is relatively a new concept and most of the literature is related to developed economies. In this section some important studies are briefly described.

In a sample of older adults in *England*, Banks and Oldfield (2007) study the numerical ability and other dimensions of cognitive function and find that numeracy levels are strongly correlated with the measures of retirement saving and investment portfolios, understanding of pension arrangements, and perceived financial security. Christiansen, Schroter, Joensen, and Rangvid (2008) use a large register-based panel data set that contain detailed information on Danish investors' educational attainment as well as financial and socioeconomic variables and find that stockholdings of the individuals increases if they have completed an economic education program. Lusardi

and Tufano (2009) study a sample of Americans with respect to their debt literacy, financial experience, and judgment about the level of their indebtedness and find illiteracy in all segments of the population, but the level of illiteracy is high among the women and the elder people. The individuals with lower levels of debt literacy enters in high-cost transactions and thus, the low levels of financial literacy contributed to debt buildup, which, in some countries (e.g. the US and Germany), has been accompanied by an increased number of insolvencies and bankruptcies.

Chen and Volpe conducted a survey of 212 company human resource and benefits administrators in U.S. based companies with the objective of identifying the importance of and level of knowledge possessed by their employees about personal finance topics and its effect on productivity in U.S. based companies. The findings of this study show that workers do not have adequate knowledge about investments and other personal finance issues. The least knowledgeable areas are financial planning basics and retirement planning. The participants also observe that employees financial crisis have led to a decline in productivity. In a study on 'Financial Illiteracy and the Subprime Mortgage Crisis', Volpe and Mumaw (2010) examine the use of subprime mortgages in the U.S. real estate markets during 2001-2006, the period that experienced a real estate boom and subsequent bust and find that subprime mortgage market witness a considerable height during the said period, but the Individuals do not possess financial skills and knowledge necessary to make a competent evaluation. They also find that the financial illiteracy of a large segment of the U.S population make some contribution towards the subprime mortgage crisis. In a survey on testing the financial literacy level among the young, Lusardi, Mitchell & Curto, (2010) find that financial literacy is correlated with family economic and educational background. The people who are more financially literate belong to highly educated and financially sophisticated families. In the report on an international project on financial literacy of eight countries, Lusardi and Mitchell, (2011) conclude that financial literacy is very low around the world, irrespective of the level of financial market development. Women are less financially literate than men and are aware of this shortfall. Financial literacy is critical to retirement security, the people who can accurately undertake simple calculations, know about inflation, and are knowledgeable about risk diversification, are more likely to plan for their retirement. Hung, Yoong and Brown (2012) undertook a review of existing literature on gender differences around the world regarding financial literacy and find that women's knowledge about financial aspects is worse than that of men and they have less confidence in their financial skills. Agarwalla, Barua, Jacob and Varma (2012) conducted 'A survey of financial literacy among students, young employees and the retired in India', covering nearly 3,000 people in India including students, employees and retirees to measure financial literacy in terms of financial knowledge, financial behaviour and financial attitude and find that financial knowledge in India is very poor as compared to the global standards and it can be attributed to poor numeracy skills and the poor elementary and primary education system. The OECD International Network on Financial Education pilot study conducted by Atkinson and Messy (2012) on financial literacy in 14 countries

focusing particularly on levels of financial knowledge, financial behaviours and attitudes. The results highlight a lack of financial knowledge amongst a sizeable proportion of the population in each of the countries surveyed and lower level of financial knowledge in women than men in almost all of the countries. The study also shows that there is positive relationship between income, education level and financial literacy.

The above studies very clearly demonstrate the significance of financial literacy for an individual and also for the financial health of a country.

### **3. International Initiatives on Financial Literacy**

At the international level, the Organization for Economic Co-operation and Development (OECD) undertook various surveys to assess the literacy level of the youth, women and the people as a whole. In 2002, a Financial Education Project was initiated by the OECD to emphasize the ill-effects of low levels of financial literacy. Financial literacy being an important element of economic and financial growth of an economy, an increasing number of financial education programmes have been initiated in all the countries. OECD has released Principles and Good Practices for Financial Education and Awareness and also developed various research and survey instruments for successful implementation of financial literacy programmes. The young generations are exposed to more financial risks than their parents because of frequent increase in financial market products, services and system and they can't be benefitted from the experience of their past generations. In 2005, OECD Recommendation advised that "financial education should start at school. People should be educated about financial matters as early as possible in their lives" (OECD, 2005b). In 2008, the OECD created the International Network on Financial Education (INFE) that assist in the formulation of National Strategies for Financial Education. Currently more than 200 public institutions from more than 90 countries have joined the INFE. The OECD launched International Gateway for Financial Education (IGFE) in March 2008, which serves as a clearinghouse for financial education programs, information and research worldwide.

From table 1 it would be observed that in our country, financial exclusion measured in terms of bank branch density, ATM density, bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world.

Government of India is focusing on Financial Inclusion with the objective of providing financial products and services to all sections of the society concentrating particularly on the weaker sections and the low income groups. But creating financial services infrastructure alone is not sufficient. The big barrier in the success of financial inclusion is lack of awareness about financial services and products that is the low level of financial literacy. The people must be literate enough to understand the banking and financial concepts and terminology.

**Table 1:** Select indicators of financial inclusion 2011

S.No	Country	Number of Bank Branches	Number of ATMs	Number of Bank Branches	Number of ATMs	Bank Deposits	Bank Credit
		Per 1000 KM		Per 0.1 Million		as % to GDP	
1	India	30.43	25.43	10.64	8.9	68.43	51.75
2	China	1428.98	2975.05	23.81	49.56	433.96	287.89
3	Brazil	7.93	20.55	46.15	119.63	53.26	40.28
4	Indonesia	8.23	15.91	8.52	16.47	43.36	34.25
5	Korea	79.07	...	18.8	...	80.82	90.65
6	Mauritius	104.93	210.84	21.29	42.78	170.7	77.82
7	Mexico	6.15	18.94	14.86	45.77	22.65	18.81
8	Philippines	16.29	35.75	8.07	17.7	41.93	21.39
9	South Africa	3.08	17.26	10.71	60.01	45.86	74.45
10	Sri Lanka	41.81	35.72	16.73	14.29	45.72	42.64
11	Thailand	12.14	83.8	11.29	77.95	78.79	95.37
12	Malaysia	6.32	33.98	10.49	56.43	130.82	104.23
13	UK	52.87	260.97	24.87	122.77	406.54	445.86
14	USA	9.58	...	35.43	...	57.78	46.83
15	Switzerland	84.53	166.48	50.97	100.39	151.82	173.26
16	France	40.22	106.22	41.58	109.8	34.77	42.85

Source: Financial Access Survey, IMF; Figures in respect of UK are as on 2010

#### 4. National Initiatives 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.

- In this context, the Reserve bank has implemented a project called "Project Financial Literacy" with the main 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. Moreover, the Reserve bank staff has been visiting the villages of India for imparting financial education to the rural India. The bank has also collaborated with the government of Karnataka to include financial literacy in the curriculum for high school classes.

In order to improve financial capability of the people In India and to make them more confident regarding their financial affairs, 718 Financial Literacy Centres have been set up as at the end of March 2013 and these centres 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.

- Under the aegis of the RBI, the banking community is coming forward for empowering people with financial literacy. HDFC Bank is conducting rural financial literacy initiatives across the country. State Bank of India has launched financial literacy programme for creating awareness among the rural masses about savings, insurance and old age pension. With the objective of promoting financial literacy in unbanked areas in Madurai and Theni districts, the National Bank for Agriculture and Rural Development (NABARD) has initiated a unique project of spreading financial education through street plays and identified ninety unbanked villages for the purpose. These plays are narrated in the local language of the people and cover the aspects like savings, financial services of banks, education loans, kisan credit card etc.
- SEBI has also taken several Initiatives on Financial Education. The SEBI Certified Resource Persons organise financial literacy workshops for different groups like students, retired personnel, homemakers etc. More than 3500 workshops have been already conducted in various states covering around two lakh and sixty thousand participants.
- In a drive of creating a financially literate India, the NGO's and SHG'S are focusing particularly on improving the financial education of women, school children, underprivileged children, youth, farmers and poor by developing and improving their knowledge and skill and enabling them to avail financial services and manage their financial budget efficiently.

## **5. Financial Literacy and Credit Counseling**

Government has also launched Financial Literacy and Credit Counseling Centers in 2009 to inculcate saving habits among the people, to make them aware of the financial products and the credit schemes and counseling people to prevent unmanageable debt level.

Credit counseling is a process of offering education to consumers about how to avoid incurring debts that cannot be repaid. As a result of transformation of the financial system and shifting of traditional need-based lending to retail lending, a large variety of products/loans are available for a common man. People are ready to take debt even to finance their consumption needs. This necessitates the opening of credit counseling centers to avoid over- indebtedness and NPAs. A few banks have opened credit counseling centers in the country. 'ABHAY' counseling centre is an initiative of Bank of India; Disha Trust is established by ICICI Bank Ltd and Bank of Baroda has opened Grameen Paramarsh Kendras in the state of Maharashtra. These centers mainly focus on credit related problems and provide awareness on various products and

services of the bank. These services are provided free of cost. Training and awareness camps are organized by some of these counseling centers to educate people about savings, credit cards, impact of minimum charges, etc.

## 6. Conclusion

In India, RBI is doing commendable job for achieving the objectives of financial inclusion and financial literacy. Various NGOs and SHGs are also contributing towards improving the financial education of the people. Currently, there are very few studies on the levels of financial literacy of the people. The need of the hour is to strengthen financial education initiatives in India and comprehensive research should be done on financial literacy in India.

## References

- [1] OECD. (2005b). Recommendation on Principles and Good Practices for Financial Education and Awareness: OECD, Directorate for Financial and Enterprise Affairs, 4.
- [2] Sahara Time, August 4, 2012, p. 33 retrieved from <http://saharatime.samaylive.com/04082012/home.aspx?userid=&uli=>
- [3] PISA. (2012). Financial Literacy Assessment Framework retrieved from [www.oecd.org/dataoecd/8/43/46962580.pdf](http://www.oecd.org/dataoecd/8/43/46962580.pdf)
- [4] Banks, J. and Oldfield Z. (2007). 'Understanding pensions: cognitive function, numeracy and retirement saving', *Fiscal Studies*, **28** (2) : 143-70
- [5] Christiansen, C., Schroter Joensen J. and Rangvid J. (2008). 'Are economists more likely to hold stocks?' *Review of Finance*, **12** (3) : 465-96.
- [6] Lusardi, A. and Tufano P. (2009). 'Debt literacy, financial experiences, and overindebtedness', NBER Working Paper No. 14808
- [7] Chen, H. and Volpe, R.P. Financial literacy, Education and Services in the workplace. Retrieved from [westga.edu/~bquest/2005/workplace.pdf](http://westga.edu/~bquest/2005/workplace.pdf)
- [8] Volpe, R. P., and Mumaw, K. E. (2010) Financial Illiteracy and the Subprime Mortgage Crisis. *Journal of Business and Accounting*. 2 (1) : retrieved from <http://maagblog.yasu.edu/financialliteracy/files/2010/03/financialliteracysubprime mortgagecrisis.pdf>
- [9] Lusardi, A., Mitchell, O. S., and Curto, V. (2010). Financial literacy among the young. *The Journal of Consumer Affairs*, **44** (2): 358-380.
- [10] Lusardi, A. and Mitchell, O.S. (2011) Financial Literacy around the World: An Overview. Retrieved from [http://www.nber.org/papers/w17107.pdf?new\\_window=1](http://www.nber.org/papers/w17107.pdf?new_window=1)

- [11] Hung, A., J. Yoong and E. Brown (2012), “Empowering Women Through Financial Awareness and Education”, OECD Working Papers on Finance, Insurance and Private Pensions, No. 14, OECD Publishing. <http://dx.doi.org/10.1787/5k9d5v6kh56g-en>
- [12] Agarwalla, S. K., Barua, S., Jacob, J. and Varma, J. R. (2012), A Survey of Financial Literacy among Students, Young Employees and the Retired in India. Retrieved from <http://www.iimahd.ernet.in/fls/youngemployessandretired2012.pdf>
- [13] Atkinson, A. and Messy, F. (2012), “Measuring Financial Literacy: Results of the OECD / International Network on Financial Education (INFE) Pilot Study”, OECD Working Papers on Finance, Insurance and Private Pensions, No.15, OECD Publishing. <http://dx.doi.org/10.1787/5k9csfs90fr4-en>
- [14] Grifoni, A. and F. Messy (2012), “Current Status of National Strategies for Financial Education: A Comparative Analysis and Relevant Practices”, OECD Working Papers on Finance, Insurance and Private Pensions, No. 16, OECD Publishing. <http://dx.doi.org/10.1787/5k9bcwct7xmn-en>
- [15] National strategy for financial education [http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1342416428845.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1342416428845.pdf)
- [16] RBI’s report on financial literacy and credit counselling centres,2008 <http://www.rbi.org.in/scripts/PublicationDraftReports.aspx?ID=526>
- [17] The Reserve Bank of India Annual Report 2012-13
- [18] <http://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/01FLAR22082013.pdf>