

FINANCIAL LITERACY IN INDIA: AN ANALYTICAL STUDY

Mrs. Surekha Amar Sangrulkar Research Scholar SUK Kolhapur.

PROF. (Dr) N.L.Kadam Vice Principal and Head, Department of Accountancy,
Jaysingpur College

Abstract: Financial Literacy refers to the knowledge and skill required to make informed and effective decisions regarding money, investment and financial planning. Now a day in India financial literacy is an important issue. Growth and development of any country depends upon its financial system, financial education and financial literacy. In recent fast development in Indian economy over the last decade and increase of financial markets through LPG have given a way to excess of financial products in banking, investment and loan products. The study focus on the level of knowledge and skill required for effective money management, investment management and financial planning. The study uses data from various sources including survey conducted by Reserve bank of India and government initiatives to promote financial literacy, to analyze the current state of financial literacy in India. The study also explores the challenges faced in improving financial literacy in the country and suggests the measures that can be taken by the government and financial institutions to enhance financial literacy. Overall the study underscores the importance of financial literacy in promoting the financial well being of the society

Introduction:

Financial literacy has emerged as a critical issue in India. Lack of financial literacy is a barrier to accessing basic financial services, making it difficult for individuals to manage their finances effectively, invest wisely and plan for their future. This issue is further compounded by the fact that financial product are becoming increasing complex, making it even more challenging for individuals to make informed decisions. In recent years, the Indian government has taken several initiatives to promote financial literacy population. In a rapidly changing global environment, financial literacy is one of the most diluted skills that could decide the countries future. On a macro-level, a government has expert analysts to handle and forecast the financial future of the country considering the changing geopolitical relationships. However, the need is arising to include financial literacy in the micro-levels of the economy. The COVID-19 pandemic has further lighted the need for financial education to go faster the economy's growth. The pandemic left millions jobless in a matter of months, with ever-increasing bills to pay. The economy is slowly receiving back on track, and investments are increasing in the retail sector, but the looming risk of lack of financial literacy could have long-lasting consequences.

Financial literacy refers to the ability to effectively manage several financial skills, including personal finance management, budgeting and investing. Financial literacy builds the foundation of an individual's relationship with money. Experts often believe that education in terms of finances is a lifelong process, and it is better to start as early as possible. In recent times, financial investments and services have become standard amongst people with all kinds of economic statuses. Financially literate people are less vulnerable to falling prey to financial fraud. (<https://thelogicalindian.com/education/financial-literacy-32666>)

Concept of Financial Literacy:

Financial literacy is the knowledge and skill required to make informed and effective decisions regarding money management, investment management and financial planning. It includes understanding various financial terms such as budgeting, saving, borrowing, investing, insurance as well as analyzing risks and benefits associated with different financial products and services. Financial literacy also

involves having ability to analyze financial information, make informed decisions and take appropriate actions based on that decision.

Finance is the lifeblood of commerce as it plays a vital role in the overall development of the nation's economy. Without sufficient finance, a country cannot prosper effectively and will hamper the development of the country and therefore finance is considered as the glue that holds the pieces of our lives together. Thus it is essential for societies and every individual to follow the ideology of financial inclusion by providing financial products and service tools that will help them in understanding easy ways of managing financial matters. **(Ruchi Jain.2020)**

Financial literacy is one of the essential areas which are related to financial planning of the individual or household. Financial literacy means financial knowledge about basic financial concepts which are used in the financial decision making. It is consideration of inflation, time value of money, return and risk etc. It also covers some information about financial products and services which are used in investment decisions. **(Sadhana Laxman 2016)**

Need of Financial Literacy:

Financial literacy is the foremost requirement for a fast-growing economy like India since it assures economic growth and sustainable prosperity.

Globalization of Financial product and Services: With globalization, various financial institutions including banks have expanded their activities across the world. At the same time, the performance of financial markets have been transformed and has become highly integrated making the financial market more complex and difficult for a layman consumer to select the best product for himself due the variety of products and services available in the market. Financial institutions are thereby providing awareness campaigns to ease the complexity of consumers and encourage them to understand the benefits of being financially literate.

Increase in Cost of Goods and Services: With the ascent in the inflation rate, the standard of living has been rising at an alarming state in India. Joint families are now shifting towards nuclear family pattern adding more responsibility for an individual in order to invest effectively and so, one should be financially aware of various financial products and services.

Awareness regarding Consumer protection: As the capital market offers a wide variety of products and services available, this made ease for fraudsters purpose also. A financial literate knows how to keep himself away from these fictitious and misleading offers. Fraudsters are effectively using different mediums to commit financial frauds. It is important for a consumer to be aware of financial frauds and ways to protect them against it. RBI and other financial institutions are in a bid to create awareness to safe investment and financial frauds

Inevitable circumstances: Life is unpredictable as so do future unseen circumstances. Therefore there is a need to invest in provisions for healthcare, insurance, retirement plans to cover unpredictable situations for them. Government and health sector agencies have started health plan for people unexpected losses. Financial literacy provides the comprehension of financial products promoting effective utilization of financial services and assists them in forward planning for their life cycle needs to manage with unforeseen circumstances without resorting to debt. **(Raj.2016)**

Objectives of the Study:

- To assess the level of financial literacy among the Indian population.
- To find the need of financial literacy.
- To analyze the impact of financial literacy on the financial well being of individual and population
- To identify the hurdles in improving financial literacy levels in India.

• **Research Methodology:**

The design of study is exploratory. The data used is secondary i.e. data collected from various sources such as surveys conducted by financial institutions and regulations, research papers, journals and websites.

Financial Literacy Rate

	Literate Population 2011	Literacy Rate 2011	Literacy Rate 2021
Female	328,814,738	64.64%	70.30%
Males	434,638,779	80.89%	84.70%
Total	763,498,517	72.99%	77.70%

(Source: Census 2011, National Family Health Survey (NFHS-5) & National Statistical Office (NSO) data)

States & Union Territories with literacy rates

State and union territories	Male financial literacy %	Female financial literacy %	Average Financial literacy %
Andhra Pradesh	73.4	59.5	66.4
Arunachal Pradesh	73.69	59.57	66.4
Assam	90.1	81.2	85.9
Bihar	79.7	60.5	70.9
Chandigarh	90.54	81.38	58.9
Chhattisgarh	85.4	68.7	86.9
Dadra and Nagar Haveli	86.46	65.93	77.65
Daman & Diu	91.48	79.59	87.07
Delhi	93.7	82.4	88.7
Goa	92.81	81.84	87.4
Gujarat	89.5	74.8	82.4
Haryana	88	71.3	80.4
Himachal Pradesh	92.9	80.5	86.6
Jammu & Kashmir	85.7	68	77.3
Jharkhand	83	64.7	74.3
Karnataka	83.4	70.5	77.2
Kerala	97.4	95.2	96.2
Lakshadweep	96.11	88.25	92.28
Madhya Pradesh	81.2	65.5	73.7
Maharashtra	90.7	78.4	84.8
Manipur	86.49	73.17	79.85
Meghalaya	77.17	73.78	75.48
Mizoram	93.72	89.4	91.58
Nagaland	83.29	76.69	80.11
Odisha	84	70.3	77.3
Puducherry	92.12	81.22	86.55
Punjab	88.5	78.5	83.7
Rajasthan	80.8	57.6	69.7
Sikkim	87.29	76.43	82.2
Tamil Nadu	87.9	77.9	82.9
Telangana	80.5	65.1	72.8
Tripura	92.18	83.15	87.75
Uttar Pradesh	81.8	63.4	73.0

Uttarakhand	94.3	80.7	87.6
West Bengal	84.8	76.1	80.5

(Source: Survey by National Statistical Office (NSO). *UTs & NE States based on 2011 Census)

As per the National Statistical Office (NSO) data for 2017-18 on state-wise literacy rate in the country Kerala ranked highest with 96.2%. Delhi stood second with 88.7% and Andhra Pradesh ranked Lowest with 66.2% followed by Rajasthan & Bihar.

Presentation, Analysis and Interpretation of Data:

According to National Statistical Office (NSO) data, as of the Year, 2021 India's **average literacy rate is 77.70%**. The male literacy at the India level in 2021 stands at 84.70% & female literacy stands at 70.30%.

The National Family Health Survey 2019-21 (NFHS-5), points to a literacy rate among adult women (15-49 years) of 71.5%, & adult men (15-49 years) at 87.4%.

Awareness: According to the Reserved Bank of India financial literacy survey conducted in 2019, about 67% of the Indian population is aware of the term financial literacy however only 24% of the population has a basic understanding of financial Concept.

Education: the RBI survey also reveals the education plays a vital role in financial literacy levels. People with higher education levels are more likely to be financially literate. For instance, about 35% of those with post graduate degree were found to be financially literate, compared to only 18% of those with no formal education

Access to Financial Products: The usage of financial products is another factor that affects financial literacy levels. The RBI survey found that people who use financial products such as insurance, mutual funds and stocks are more likely to be financial literate then those who do not use these products.

Gender Disparity: the RBI survey also highlights a gender disparity in financial literacy levels, with men being more financial literate then women. Only 18% of women were found to be financial literate as compared to 28% of men.

Regional Disparities: The RBI survey also found significant regional disparities in financial literacy levels, with people from southern and western regions of India being more financially literate than those from the northern and eastern regions.

(<https://m.rbi.org.in/scripts/PublicationReportDetails.aspx?UrlPage=&ID=1156>)

Analysis and interpretation of financial literacy in India suggest that there is a need for concerted efforts to improve financial literacy levels in the country. Initiatives such as promoting financial education, simplifying financial products, and enhancing access to financial services can help in achieving this goal. Additionally efforts to bridge the gender and regional disparities in financial literacy levels also crucial for ensuring that financial literacy benefits everyone in India.

Hurdles in improving financial literacy:

Improving the financial literacy is a challenging task, and several hurdles must be overcoming to achieve the desired outcomes. Some of the significant hurdles in improving financial literacy include:

1. **Lack of Awareness:** one of the significant hurdles in improving financial literacy is the lack the awareness among the population regarding the importance of financial literacy; many people do not understand the benefits of financial literacy and fail to recognize the risks associated with financial literacy.

2. **Limited access to financial education:** many people, especially those from rural areas or underprivileged sections of society have limited access to financial education; lack of access to financial education can hinder efforts to improve financial literacy among these sections of society.

3. **Complexity of financial products:** Financial products are becoming increasingly complex, making it challenging for people to understand them. This complexity can lead

to confusion, interpretation, and poor decision making, ultimately hindering efforts to improve financial literacy.

4. **Lack of Trust:** lack of trust in financial institutions and financial services provides can also be a significant hurdle in improving financial literacy. Many people do not trust financial institutions, which can lead to a lack of interest in financial education initiatives and reluctance to use financial services.

Current state of Financial Literacy in India:

Financial Literacy in India has improved in recent year, but there is still a long way to go. According to survey conducted by the Reserve Bank of India in 2019, only about 24% of adult in India are financially literate. This means that the majority of Indians do not have a basic understanding of financial concept such as budgeting, saving, investing and managing debts. However Indian government and various organizations have launched several initiatives to promote financial literacy in recent years. For example the government has launched the Pradhan Mantri Dhan Yojana to provide banking services to society. Government has also launched National Pension System and Atal Pension Yojana to promote retirement planning among Indians. Overall, while there have been efforts to improve Financial Literacy in India, there is still a need for more widespread education and awareness campaigns to ensure that all Indians are equipped with the financial knowledge they need to make informed decisions about their money.

Findings and conclusion:

Analysis and interpretation of financial literacy in India suggest that there is a need for concerted efforts to improve financial literacy levels in the country. Initiatives such as promoting financial education, simplifying financial products, and enhancing access to financial services can help in achieving this goal. Additionally efforts to bridge the gender and regional disparities in financial literacy levels also crucial for ensuring that financial literacy benefits everyone in India.

References

Journal paper:

- Banerjee, A., Kumar, K., & Philip, D. Financial Literacy, Awareness and Inclusion.
- Fathima, S. (2017). Digital Financial Literacy. International Journal of Latest Research in Humanities and Social Science Financial Inclusion and Consumer Empowerment in Southeast Asia. (2018). OCED.
- Prasad, H., & Meghwal, D. (2017). DIGITAL FINANCIAL LITERACY: A STUDY OF HOUSEHOLDS OF UDAIPUR. Global Journal of Advanced Research.
- Ramakrishnan, R. (2014). Financial Literacy-The Demand Side of Financial Inclusion. Research Gate.
- Shen, Y., Hu, W., & Hueng, C. J. (2018). The Effects of Financial Literacy, Digital Financial Product Usage and Internet Usage on Financial Inclusion.
- Agarwalla, S. K., Barua, S., Jacob, J., & 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/>
- Australian Securities and Investments Commission. (2011). Financial literacy and behavioural change. Research Report 230, Australian Securities and Investments Commission, Sydney. Retrieved from <https://www.moneySMART.gov.au>
- Boucher, M. R. (2010). Delivering Financial Literacy: Challenges, Strategies and Instruments. Retrieved from <https://www.oecd.org/> Chen, H., & Volpe, R. P. (1998). An analysis of personal financial literacy among college students. Financial Services Review, 7(2), 107-128.

- “Financial literacy and investor behaviour: a theoretical perspective” published in Journal of Emerging Technologies and Innovative Research (JEITIR), May 2019, volume-6, issue-5, ISSN-2349-5152.
- OECD (2005).Improving Financial Literacy: Analysis of Issues and Policies. Organization for Economic Cooperation and Development, Paris: OECD Publications.
- Henager and cude, 2016; Journal of Financial Counselling and Planning, Volume 27, Number 1, 2016)

Web References:

1. <https://www.bbvaedufin.com/en/publicacion/financial-literacy-around-the-world-insights-from-thestandard-poors-ratings-services-global-financial-literacy-survey/>
2. <https://gflec.org/initiatives/sp-global-finlit-survey/>
3. <https://scores.gov.in/scores/Welcome.html>
4. <https://financialservices.gov.in/banking-divisions/Important-Schemes>
5. <https://www.nabard.org/content1.aspx?id=23&catid=23&mid=530>
6. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=47174