

## A STUDY ON FINANCIAL LITERACY IN INDIA

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### Abstract

The concept of financial literacy is changing day by day. Once it was focused on activities designed for financial awareness, but now it is focuses on financial counseling and financial education. Financial literacy means the ability of people to make informed financial choices. Domestic savings and domestic investment in promoting economic growth have received major attention in India and across the world. Financial literacy is the major vehicle for promoting savings and investments. The topic of financial literacy is relatively new, and not much of research is available particularly with respect to India. This paper summarizes the present status in the field of financial literacy. This paper discussed the various agencies which are involved in the promotion of financial literacy and major problems faced by them. The paper has implications for the policy makers in identifying the growing need for financial awareness and developing suitable financial literacy programs.

### 1. Introduction

Financial literacy is not a new concept. The changes in financial and legal environment of India demand financial literacy. The concept of financial literacy has been changed from activities designed to financial awareness to financial education and financial counseling. India has been numbered as one of the world's most efficient and regulated financial markets. It has one of the highest savings rate in the world .While people in India prefer to save, the savings are not invested in a wise manner. A majority of country's population are far away from the financial products and services. They cannot convert their savings into investment and their by creation of wealth. A developing economy like India, need to convert savers into financially literate and wise investors in order to make a developed economy. Nowadays, various agencies are competing each other to frame financial literacy programs which should be beneficial to both the business and the society. Reserve Bank of India, Securities Exchange Securities exchange board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA) are working actively towards promoting financial literacy.

People gain financial literacy through a process of financial education. Organisation for Economic Co-operation and Development (OECD) defines financial education as “ The process by which financial consumers/ investors improve their understanding of financial products, concepts and risks and, through information, instruction and/ or objective advice, develop the skill and the confidence to become more 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”. Financial literacy is considered as an important tool for promoting financial inclusion and financial stability. The figure 1 explains the relationship between financial education, financial inclusion and financial stability. Financial inclusion works from supply side of providing access to financial services and financial education works from demand side by promoting awareness among people, of the need and benefits of financial services offered by banks and other institutions and these two strategies are needed to promote financial literacy.

Figure 1: Financial Stability



### 2. Statement of the Problem

The purpose of this paper is to explore financial literacy status in India and how it is beneficial to the society . Financial literacy is fundamental to meaningful financial inclusion. Various regulatory authorities and agencies are playing dominant role in spreading financial literacy. However, such practices of organizations have received little attention. Not many studies are available relating to the status of financial literacy in India. Hence the present study focuses on the following objectives.

### 3. Objectives

1. To study the financial literacy status in India.

2. To understand the meaning and concepts of financial literacy.
3. To identify the contribution of the major players in the field of financial literacy.
4. To understand the benefits of financial literacy.

#### 4. Research Methodology

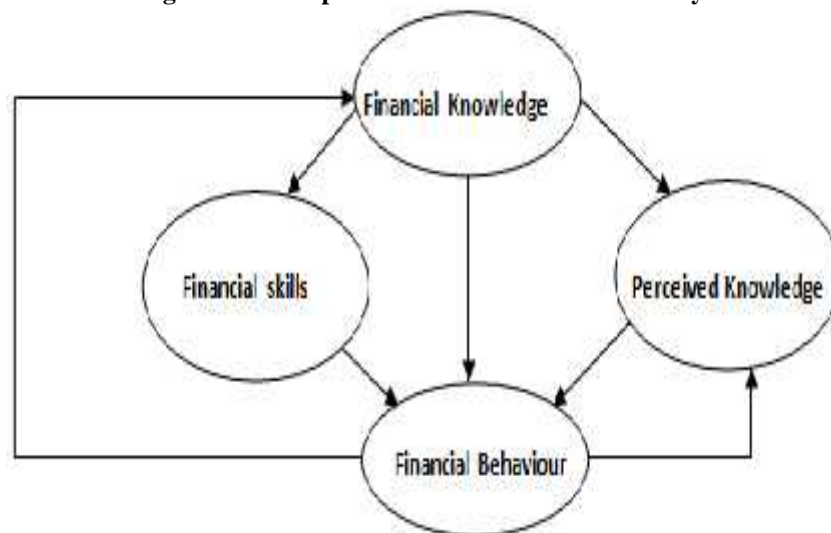
The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports.

#### 5. Financial Literacy Concepts and Definitions

According to RBI, Financial literacy can broadly be defined as “Providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices”.

A most commonly used definition of financial literacy as given by Schagen & Lines (2006) is “the ability to make informed judgements and take effective decisions regarding the use and management of money”.

Figure 2: Conceptual Model of Financial Literacy



#### 6. Financial Education in India

Financial education affects the financial behavior of individuals and households. Financial literacy in India is under the support of the Financial Stability and Development Council (FSDC) founded in 2010. The main responsibility of FSDC is to spread of financial inclusion and financial literacy. National Centre for Financial Education (NCFE) was established with the support of all the financial sector regulators in India. This would aim to improve the consumer’s knowledge, skills, understanding and competency in managing money and to improve their financial status by taking informed decisions. A link on financial education in the RBI website contains material in English, Hindi and 11 vernacular languages which provides information regarding financial planning and financial literacy.

#### 7. Financial Literacy Centres

RBI has adopted a model scheme for financial literacy and credit counseling centers to spread financial literacy in the country. Basically it serves three purposes:

1. Examine ways to solve current financial problems
2. Educate the costs of misusing a credit
3. Encourage distressed people to access formal financial system

RBI has launched a financial education site from November 2007 memorializing children’s day. This site was created to teach the basics of banking, finance and central banking of children in different age groups. RBI has been conducting essay competition to promote financial awareness among school children on topics related to banking and finance. The bank also arranges exhibitions in various parts of the country. RBI launched Young Scholar’s award for outstanding students in order to generate interest in creating awareness of banking sector of the country. Reserve Bank has collaborated with the government of Karnataka to include financial literacy in the syllabus for classes 5, 7, 8 and 9. The new revised syllabus has

already implemented from 2010-11. Commercial banks also take measures for spreading financial literacy in India. The ABHAY counseling centre in various parts of the state of Maharashtra was started by the Bank of India. The DISHS TRUST another organization initiated by the ICICI bank and “Grameen Paramarsh Kendras” started by the Bank of Baroda are some of the examples of financial literacy centres. These counseling centres assist people to deal with the problems related to credit cards, personal loans, housing loans and other financial services. They also conduct various training and awareness programmes to educate people of the need to save as well as to make the saving into investment. Following table enumerates the details of financial literacy centers in Kerala.

**Financial Literacy Centers in Kerala  
Public Sector Banks**

S. No	Name of Bank	Number
1	Indian Overseas Bank	9
2	State Bank of Travancore	15
3	State Bank of India	19
4	Canara Bank of India	15
5	Central Bank of India	4
6	Indian Bank	3
7	Union Bank of India	8
8	Syndicate Bank of India	6
9	Bank of India	3
10	Corporation Bank of India	3
11	Panjab National Bank	7
12	Bank of Baroda	1
13	Vijaya Bank of India	2
	<b>Regional Rural Bank</b>	
	<b>Total</b>	<b>104</b>

**Private Sector Banks**

S. No	Name of Banks	Number
1	Federal Bank of India	19
2	South Indian Bank	12
3	Catholic Syriyan Bank	8
4	Dhanalaxmi Bank	5
5	HDFC Bank	1
6	ICICI	1
	<b>Total</b>	<b>46</b>
	<b>Grand Total</b>	<b>150</b>

### 8. Need for Financial Literacy

In India, there is a good demand of conversion of savings into investments. Many government reports show that there is a need for conversion of savings into investment. There is a need for spreading awareness on the basis of financial products and services and educate people. The financial knowledge of the society is a society which is enriched by the mass financial mobility as a result of financial literacy, awareness, education, further it enlightens and uplift the society to the construction of an economically viable nation. Financial literacy and counseling help to connect masses who are away from most of the banking and financial services. Financial literacy centers and campaign are necessary for lifting these marginalized sections of the society to the mainstream of economic development, which will lead to a more inclusive growth. An individual is said to be financially literate if he/she is able to perform the following:

**a. Financial Knowledge and Understanding**

The individual can convert his savings to appropriate investments on the basis of products information and market information.

**b. Choosing Appropriate Products**

A individual is said to be financially literate only when he/she can compare the products available in the market and select the appropriate one.

**c. Financial Planning**

The intensity to save and plan for their retirement life should be clear. Investment in proper avenues or saving through various investment plans shows their attitude and behaviour towards financial matters.



#### **d. Day to Day Money Management**

Financial literacy helps an individual to have control over his financial matters. It enables an individual to frame appropriate budgets which in turn helps them to track his finances and meet the ends.

### **9. Recent Initiations**

In the year 2014 august 15 , government of india implemented a national mission on financial inclusion of household in the country called Pradhan Mantry Jan-Dhan Yojana . The plan envisages universal access to banking with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension facility.

Government of India's proposed financial inclusion plan is to be achieved by 14<sup>th</sup> August 2018 in two phases :

Phase 1 (15<sup>th</sup> Aug, 2014 to 14<sup>th</sup> Aug 2015):

- Providing basic banking accounts for saving and remittance and Rupay debit card with inbuilt accident insurance cover of 1 lakh
- Financial literacy programme
- Universal access to banking facilities except in areas with infrastructure and connectivity constraints

Phase 2: (15th August 2015 to 14<sup>th</sup> August 2018)

- Overdraft facility up to Rs 5000 after 6 months satisfactory operation
- Creation of Credit guarantee fund for coverage of default in A/Cs with overdraft limit upto 5000
- Micro insurance unorganized sector pension schemes like Swavalamban.

### **10. Conclusion**

Financial literacy is a continuous phenomenon. Day by day there is an increased demand from customers, statutory bodies and general public for detailed information about whether the financial products are suitable for the society or not. The new financial inclusion plan is a new initiative from the part of government for promoting financial literacy. Therefore, the financial literacy centres should actively engaging in the financial awareness programmes, education, training, counseling etc, to the mass, especially the vulnerable sections of the society which will ultimately help in the creation of a Financial Knowledge Society.

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