

A THEORETICAL STUDY OF FINANCIAL LITERACY IN INDIA

Suhaag D. Maheria

Assistant Professor (GES-II)
Department of Accountancy,
Shri K.K Shastri Government Commerce College,
Gujarat University, Ahmedabad, India

Abstract

Multiple studies have tried to examine the level of financial literacy in India. Most of them conclude that financial literacy in the country is lacking. However, due to India's diverse cultural and socio-economic landscape, forming a unified assessment of its financial literacy level is challenging. Conducting a comprehensive nationwide study on financial literacy and its related aspects could provide a deeper understanding, aiding in the formulation of effective policies. This paper conceptualizes various facets concerning financial literacy, encompassing its origins, definition, financial literacy in India, and the role of India's National Centre for Financial Education and various initiatives taken by NCFE. It also discusses financial literacy in India as compared to its neighbouring countries. When examining the financial literacy of adults in neighbouring countries of India, the study reveals that India surpasses Bangladesh, Nepal, and Afghanistan, but falls behind Bhutan, Myanmar, Sri Lanka, China, and Pakistan. Financial literacy levels vary significantly among the states of India. Goa, Chandigarh, and Delhi are the most financially literate states, while Odisha, Sikkim, and Chhattisgarh are the least financially literate states.

Keywords: Financial Literacy, National Centre for Financial Education, Financial Education

1. INTRODUCTION:

In recent years, knowing about money and finances has become more critical. This is because financial systems are growing quickly and getting more complicated around the world. The situations in which people make decisions about money have changed, and this change will keep happening due to new and always-changing technology. There are many different kinds of financial products and services available now, and they are being advertised using technology and other ways. But it's difficult for regular people to understand all this information and make good choices. This is why it's essential to have knowledge and skills about money, which can be learned through financial education. Financial literacy plays a crucial role in preventing individuals from making mistakes with their money. Moreover, it proves valuable during emergencies, such as job loss or unexpected expenses, enabling better financial preparedness.

2. OBJECTIVES:

1. To understand the origin and definition of Financial Literacy.
2. To understand the financial literacy of India as compared to neighbouring countries.
3. To summarize initiatives led by NCFE and compare the percentage of financial literacy rates in various states of India.

3. LITERATURE REVIEW:

Jyoti Prakash Rath and Samira Patra (2023) from Odisha, India, explored the concept of Financial Literacy, defining it as a blend of awareness, knowledge, skills, attitude, and behavior necessary for sound financial decisions and individual well-being. Their study focuses on India's current economic situation, and financial literacy's importance and highlights diverse financial services, especially from banks and insurance companies. Data is collected from various secondary sources; The authors suggest that financial literacy is an urgent requirement and people need to understand the benefits of financial services provided by Government and Financial Institutions from time to time. Their message is clear: It's not enough to be literate; one must be "Financially Literate."

Hridhya P.K. and Dr. R. Jayaprakash Reddy (2020) from Mysore University and AIMS Centre for Advanced Research, respectively, discuss the crucial role of financial literacy in an individual's financial well-being and a country's economic growth. They highlight that a strong financial system contributes to a nation's

development, and the government of India has been actively working on enhancing financial inclusion and literacy among citizens. Their paper examined the efforts made by regulatory bodies in India to improve financial literacy and inclusion, drawing insights from research articles, newspaper articles, regulatory documents, and books. Their study aimed to understand the significance of financial literacy in the country and its impact on individual and national financial stability.

Dr. Neha Sharma (2015) studied financial literacy programs in India. Her paper aims to explain the significance of financial literacy, a fundamental need for individuals worldwide. The study's findings mention that financial literacy is important, especially in developing countries like India. The paper evaluates government-led financial literacy initiatives, advocating for it to become a central objective for governments worldwide to enhance financial literacy among their citizens.

Toran Lal Verma, Dr. D. K. Nema, and Rahul Pandagre (2017) discuss the evolution and importance of financial literacy. Their paper examined India's current financial education level, government-initiated financial literacy programs, and their success in enhancing financial awareness. Their study also proposed policy measures for effective scheme implementation.

4. RESEARCH METHODOLOGY:

The research paper is based on a descriptive study. A thorough study of the literature has been done to find out various research related to financial literacy in India. The data was collected from authentic secondary sources such as global reports, NCFE Reports, articles, journals, websites, and research papers.

5. ORIGIN OF FINANCIAL LITERACY:

Financial literacy term Originated in the US informally, with no school classes or financial professions. Benjamin Franklin, known for his many skills, talked about money in his writings. While he might not have said "A penny saved is a penny earned," it captures his idea. He believed in saving and smart spending. In his 1737 almanac, he shared money tips. The phrase became popular because it's easy to understand: saving money is like earning it. Though the exact words are debated, the message of saving for a better future is still important today.

6. DEFINITION OF FINANCIAL LITERACY:

During the 8th meeting of the International Network on Financial Education on October 26, 2011, in Cape Town, South Africa, the OECD (Organisation for Economic Co-operation and Development) endorsed a document titled "Measuring Financial Literacy: Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy." This document provided a definition of financial literacy as established by the OECD INFE. According to this definition, financial literacy encompasses "a combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being."

Furthermore, the members of the OECD INFE reached a consensus that there are various terms used to describe this concept, such as financial literacy, financial capability, financial culture, and financial insight, to convey similar perceptions of the reality they aim to address. As a result, these terms could be used interchangeably. To maintain consistency, the decision was made to employ the widely recognized international term "financial literacy" for the purpose of the measurement survey. This choice was intended to ensure clear communication and understanding in the context of financial education and awareness.

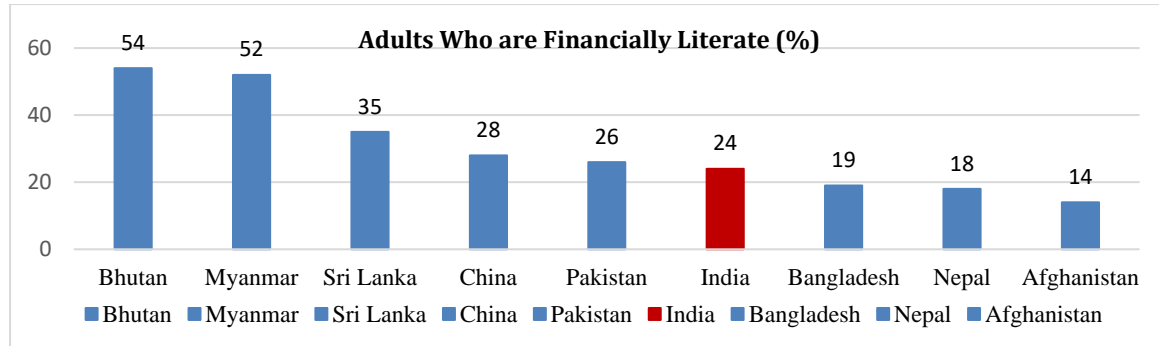
Financial literacy is a term that holds diverse meanings for different individuals. To some, it encompasses a comprehensive understanding of economics, delving into how economic factors influence household choices. For others, financial literacy narrows down to essential money management skills, which include handling budgets, managing savings, making investments, and obtaining insurance coverage.

7. FINANCIAL LITERACY IN INDIA AS COMPARED TO THE NEIGHBOURING NATIONS.

The study entitled "Financial Literacy across the World: Insights from the S&P Global Fin Lit Survey" furnished extensive data concerning the financial literacy landscape, encompassing a sample size exceeding 150,000 individuals serving as national representatives from over 140 economies. The investigation transpired throughout the 2014 calendar year. The resultant report meticulously delineated financial literacy statistics on a country basis, offering a comprehensive view of the analyzed nations. In the graphical representation shown under, particular emphasis was placed on the neighbouring nations to India, in alignment with the website outlined by the Ministry of External Affairs. (Maldives excluded as No data available)

The financial literacy scores mentioned below for the neighbouring countries of India exhibit a range of understanding in financial matters. Bhutan and Myanmar stand out with a high score, indicating effective

financial education efforts. Afghanistan, Bangladesh, and Nepal have lower scores, suggesting a need for increased financial education initiatives. The moderate scores of China, India, Pakistan, and Sri Lanka reflect varying degrees of financial literacy, with potential for improvements. Overall, these scores highlight opportunities for targeted education and awareness campaigns to promote better financial decision-making across the region.



Source: *Financial Literacy across the World: Insights from the S&P Global Fin Lit Survey*

8. FINANCIAL LITERACY IN INDIA:

➤ Establishment of NCFE:

In the Indian context, the year 2013 marked a significant milestone with the formation of the National Centre for Financial Education (NCFE). This establishment was made possible through a collaborative effort involving prominent financial sector regulators: the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI), and the Pension Fund Regulatory and Development Authority (PFRDA). The primary purpose of this collaborative initiative was to effectively implement the National Strategy for Financial Education (NSFE). The National Centre for Financial Education (NCFE) has introduced an e-learning program focused on fundamental financial education. This comprehensive course encompasses areas such as Banking, Securities Markets, Insurance, and Pension products. The curriculum is divided into 20 distinct modules, including subjects like Money and transactions, Financial Records and Contracts, Managing Income and expenditure, long-term planning, Financial Safety Nets and insurance, and Awareness about Scams and frauds. The e-Learning Course is available at no cost to all registered users, aiming to provide accessible and valuable financial education.

➤ The initiatives led by the National Centre for Financial Education (NCFE)

1) **MSSP (Money Smart School Program):** The NCFE has started a program in schools to teach unbiased financial education. This helps students (from class 6 to 10) develop an essential life skill – understanding money.

2) **FETP (Financial Education Training Programme):** This initiative is for school teachers enabling them to become “Money Smart Teachers”, who are teaching students in classes 6 to 10 across India.

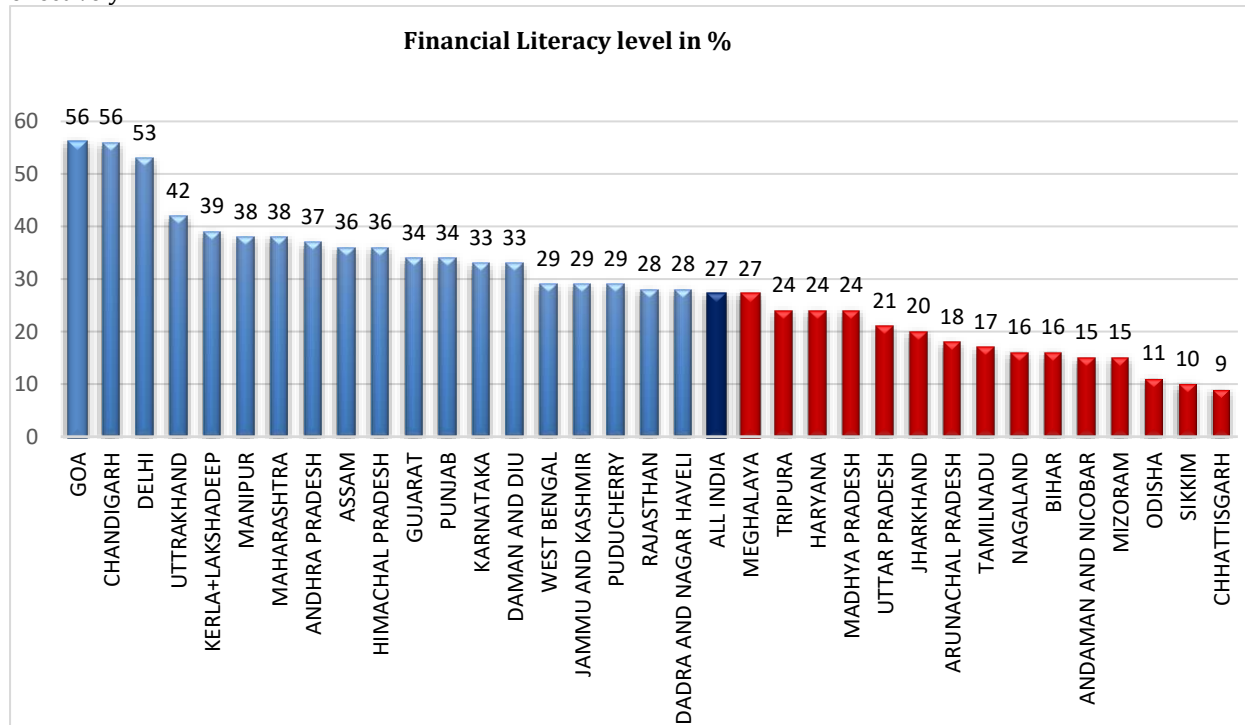
3) **FACT (Financial Awareness and Consumer Training):** This initiative is for graduate and postgraduate students to provide financial education for a positive impact on their financial well-being.

4) **FEPA (Financial Education Programme for Adults):** This Initiative is for the adult population of India to create financial awareness among them. The purpose of this program is to increase financial literacy among the adult population, particularly among farmers, women's groups, Asha workers, Anganwadi workers, self-help groups, and employees of organizations.

5) **Other Initiatives:** NCFE has also designed an e-learning course on basic financial education. This course is offered free of cost to registered users. The content of the course is derived from the book "Capacity Building for Financial Literacy Programmes (CABFLIP)," which draws primarily from the Core Competencies on Financial Literacy outlined in the OECD-INFE (International Network on Financial Education) document. Furthermore, NCFE provides resources free of cost, including the Financial Education Handbook, Target Group Booklets, Financial Literacy Booklets, Handbook on Digital Finance for Rural India, and Information on Digital Payments. Some of the booklets and messages are also available in vernacular languages, facilitating better conceptual understanding.

6) **NCFE Report:** As per the Executive Summary of the NCFE Financial Literacy and Inclusion Survey 2019, the overall financial literacy level in India is measured at 27%. As per the survey Gujarat has a financial literacy rate of 34%, which means that around one-third of the population in the state understands financial matters. Among the 35 states and union territories, about 19 (which is 54%) have financial literacy rates higher than the national average. Notably, the top-performing regions include Goa, Chandigarh, and Delhi, where more than 50% of the population understands financial concepts. However, at the lower end of the financial literacy scale are states like Odisha, Sikkim, and Chhattisgarh, with only 11%, 10%, and 9% of their populations

respectively having a good understanding of financial matters. This emphasizes the importance of improving financial literacy across the nation to ensure that people are better equipped to manage their finances effectively.



Source: Executive Summary: NCFE Financial Literacy and Inclusion Survey 2019

9. SUGGESTIONS:

- The study reveals that various prominent financial sector regulators make collaborative efforts through various initiatives to enhance financial literacy in India. But despite all these efforts financial literacy in India is very low compared to its neighbouring Countries. It is required to include financial education in schools' curricula so that from childhood at the primary school level students can understand financial literacy concepts.
- It's crucial to increase awareness about the initiatives led by the National Centre for Financial Education (NCFE) among various groups, including school students, teachers, undergraduates, postgraduates, farmers, women's groups, workers, self-help groups, and employees. The promotion of NCFE's E-learning program should be extended to higher education students and the broader online community in India. This way, a wider audience can benefit from these resources and enhance their financial literacy.
- An essential step is to compare states with high financial literacy levels to those with low levels. By identifying the factors contributing to high financial literacy, we can apply these strategies in states with lower rates. This approach aims to uplift financial literacy levels across regions and promote better financial understanding and management.

REFERENCES:

- [1] Rose, S. (2023). The history of financial literacy. Opp Loans. <https://www.opploans.com/oppu/financial-literacy/history-of-financial-literacy/#:~:text=Financial%20literacy%20in%20the%2020th%20century&text=One%20act%20that%20had%20a,of%20topics%2C%20including%20personal%20finance>.
- [2] Financial Literacy and Financial Education in India: An Assessment. (n.d.). <http://www.casirj.com>
- [3] Measuring Financial Literacy: Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy. (n.d.).
- [4] Reserve Bank of India. (n.d.). [https://www.rbi.org.in/commonman/English/Scripts/PressReleases.aspx?Id=2867#:~:text=The%20National%20Centre%20for%20Financial,for%20Financial%20Education%20\(NFE\)](https://www.rbi.org.in/commonman/English/Scripts/PressReleases.aspx?Id=2867#:~:text=The%20National%20Centre%20for%20Financial,for%20Financial%20Education%20(NFE))
- [5] NCFE - National Centre for Financial Education (NCFE). (n.d.). <https://www.ncfe.org.in/>

- [6] Kumar Agarwalla Samir Barua Joshy Jacob Jayanth Varma, S. R. (2012). A Survey of Financial Literacy among Students, Young Employees and the Retired in India Indian Institute of Management Ahmedabad Citi Foundation. www.oecd.org/dataoecd/43/61/49878153.pdf
- [7] <https://mea.gov.in/india-and-neighbours.htm>
- [8] Rath, J. P., & Patra, S. (2023). Financial Literacy in India – A New Way Forward. *ComFin Research*, 11(2), 20–27. <https://doi.org/10.34293/commerce.v11i2.6172>
- [9] Prajakta Joshi, A. (n.d.). *The way of Financial Capability is through financial literacy: Indian and Global Scenario*.
- [10] Pk, H., & Reddy, R. J. (2020). *An Insight to financial literacy in India-A review of literature* (Vol. 7). www.jetir.org
- [11] Lal Verma, T., Nema, D. K., Pandagre, R., Singh Gour Vishwavidyalaya, H., & India, S. (2007). *AN OVERVIEW OF CURRENT FINANCIAL LITERACY EFFORTS IN INDIA. 2*.
- [12] Kumar Agarwalla Samir Barua Joshy Jacob Jayanth Varma, S. R. (2012). *A Survey of Financial Literacy among Students, Young Employees and the Retired in India Indian Institute of Management Ahmedabad Citi Foundation*. www.oecd.org/dataoecd/43/61/49878153.pdf
- [13] Kumar, S., & Dr.H.G., J. (2016). Financial Inclusion through Financial Literacy in India: Issues and Challenges. *Bonfring International Journal of Industrial Engineering and Management Science*, 6(1), 200–203. <https://doi.org/10.9756/bijiems.8341>
- [14] Klapper, L., Lusardi, A., & van Oudheusden, P. (n.d.). *Financial Literacy Around the World*. <http://www.FinLit.MHFI.com>.
- [15] *Financial Literacy and Inclusion in India Final Report National Centre for Financial Education (NCFE)*. (n.d.).
- [16] *A Perspective on Financial Literacy and Inclusion in India*. (n.d.). <https://ssrn.com/abstract=3396241>
- [17] *Measuring Financial Literacy: Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy*. (n.d.).
- [18] *Financial Literacy and Financial Inclusion*. (n.d.).