INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES

[ISSN 2581-5369]

Volume 7 | Issue 1

2024

Impact of Financial Literacy in India

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ABSTRACT

A robust financial system is essential to the expansion and development of any economy. A prosperous economy is the direct result of its citizens' financial security. Having a firm grasp on basic money management skills is essential to building long-term financial security. The government of India has made many steps to increase citizens' access to and understanding of financial resources. This article provides insight into the several initiatives taken by regulatory bodies in India to promote financial inclusion and financial literacy among the population. The work draws on a wide range of literature reviews, including those of academic journals, newspapers, government documents, books, etc.

***Keywords**: Financial inclusion, financial literacy, and Regulatory bodies.*

I. INTRODUCTION

A stable financial system is essential for a country's economic growth and development. The term "financial system" refers to the network of interconnected institutions, markets, products, and services that facilitate the creation of capital. It provides a method by which accumulated funds can be invested.

For a very long time, India has been known as a "saving" nation that has invested both frugally and extravagantly. However, the savings strategy employed could be non-standard. Possible location: the family "Hundis" (or "piggy bank"). Over the years, our citizens have preferred to put their money into gold and property. Gold and real estate may be more accessible to those who are financially excluded and have limited financial literacy.

Although the government of India has been making efforts towards financial inclusion through informal approaches since 1950, genuine momentum has been building since 2005, Thanks to the support of NABARD and commercial banks, as well as RBI regulations and policies. The Campaign to Promote Financial Education has Launched.

Financial inclusion and financial literacy are two essential variables in a country's economic progress. The level of financial literacy in the populace is crucial to government efforts to expand financial inclusion in the country.

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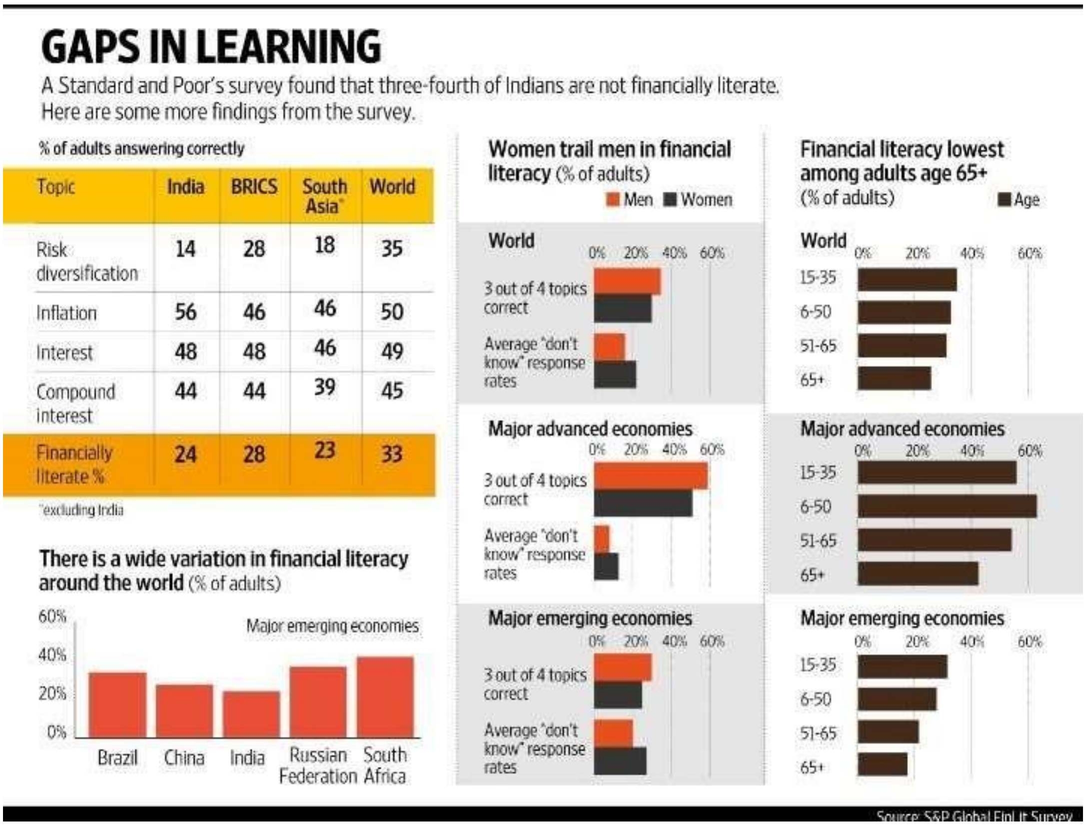
In a piece for the Economic Times, Rajat Gandhi said it best: "No matter how many banks you open and how many people you have on the ground, if a person doesn't know about the financial options that are open to him, policies, schemes, and financial instruments will mean little." One must first learn how to find something before considering what advantages one can reap from doing so.

In her paper "Financial literacy in India: Statistics and solution," Meera Santoshi (2016) analysed the survey on financial literacy performed by Standard & Poor's Rating Service in 2015. According to the data, more than 76 percent of Indian adults are financially uneducated and do not grasp fundamental economic principles. It's somewhat on par with BRIC and South Asian countries, but far behind the global average.



In 2012, VISA surveyed financial literacy around the world and found that only 35% of Indians were financially literate, making it one of the least literate nations.

The numbers are rather disheartening. Financial education is a powerful resource for individuals, families, and nations. When people are well-versed in money management, they are better able to prepare for their financial futures, which benefits the economy as a whole. However, the Indian government has taken several steps to expand both knowledge of and access to official financial services. RBI, SEBI, IRDA, and PFRDA are all working together to increase financial education and inclusion in India.

(A) Objectives:

- To introduce the idea of financial literacy and explain why it's so crucial.
- Provide a brief overview of the measures RBI and SEBI have done to boost financial education.

(B) Research Methodology:

Only secondary sources were used for this analysis. Previous research articles, newspapers, reports, journals, books, and regulatory agencies' websites are all thoroughly combed over.

II. Concept of financial literacy

According to Meera Santoshi (2016), two components of a country's financial stability are financial literacy and financial inclusion. People are more inclined to take use of banking products and services when they have a basic understanding of personal finance. This increased ease of access to basic banking services is replacing the older, more cumbersome methods of accessing the money market, such as borrowing money from money lenders. A country's economy suffers when its citizens are financially illiterate and unable to manage their own finances. The spread of banking services can be sped up by a more educated populace.

The Organisation for Economic Co-operation and Development's (OECD) International Network for Financial Education (INFE) defines financial literacy as "financial literacy is the set of abilities and dispositions that allow an individual to navigate the complex world of personal finance with confidence and success"

Swetha kumari argues that knowing how to manage one's finances might help one avoid fraud and set themselves up for a comfortable retirement. Inclusion in the financial system, financial education, and safeguards for consumers are the three pillars on which financial security rests.

Financial literacy is related to financial inclusion. As people learn more about managing their money, fewer of them are left out of the system.

It is critical to make a distinction between financial inclusion and financial knowledge. Financial inclusion focuses on a more comprehensive set of skills, while financial literacy promotes depth of knowledge.

While the goal of financial inclusion is to ensure that everyone has easy access to basic banking services, the goal of financial literacy is to ensure that everyone has the information necessary to make sound financial decisions.:

(i) Learn to effectively handle your own finances and reduce your exposure to loss.

(ii) Take charge of one's financial situation.

(iii) Know what services and perks banks provide so you can avoid using payday lenders.

(iv) Benefit from saving over time.

Financial inclusion gives people access to the financial market or service they want, while financial knowledge raises people's awareness of what they can ask for, which increases demand.

(A) Components of Financial Literacy

Financial literacy has three components:

- Personal financial management.
- Data about the origin and nature of a range of financial products and services.
- Operational knowledge.

(B) Need for financial literacy

1. **Knowledge and skill:** It is becoming increasingly difficult for the average person to make a well-informed choice from the wide variety of financial products available today. The common person's financial well-being can be improved by the acquisition of financial literacy, which provides them with the knowledge, abilities, and self-assurance to handle financial products and services.
2. **Freedom from exploitation:** Having a firm grasp on money matters can safeguard individuals and communities from scams and predatory lending practises.
3. **Avoidance of over-indebtedness**: Avoiding excessive debt, boosting service quality, and encouraging financially responsible choices are all outcomes of a well-educated populace on money matters.
4. **Promoting entrepreneurship:** Small business owners who are well-educated and have some business acumen can benefit from learning more about financial products so that they can better navigate the market.
5. **Positive spillover effects**: There may be a domino effect on the economy from the dissemination of financial knowledge. Regular saving by households with at least one financially literate member promotes investment in economically beneficial sectors. If people are financially secure, that will improve everyone's lot in life.

6. **Reducing strain on social programmes:** Someone who is financially knowledgeable can better assess their requirements and choose appropriate programmes. It strengthens the economy and reduces stress on government welfare and private retirement accounts.
7. **Behavioral change:** As a result of the abundance of available financial options, people often make hasty decisions with their money without fully considering the potential consequences. IIn light of the recent worldwide financial crisis, the extent to which the general public's lack of financial knowledge led them to incur excessive debt via credit cards and adjustable-rate mortgages has been called into doubt. An agent of behavioural change, financial education can.
8. **Deeper participation in financial markets:** Savings in India must be transformed into investments. The depth of the securities market can be increased by the increased participation of domestic individual investors. The expansion of corporations will not only help shareholders, but also domestic savers.

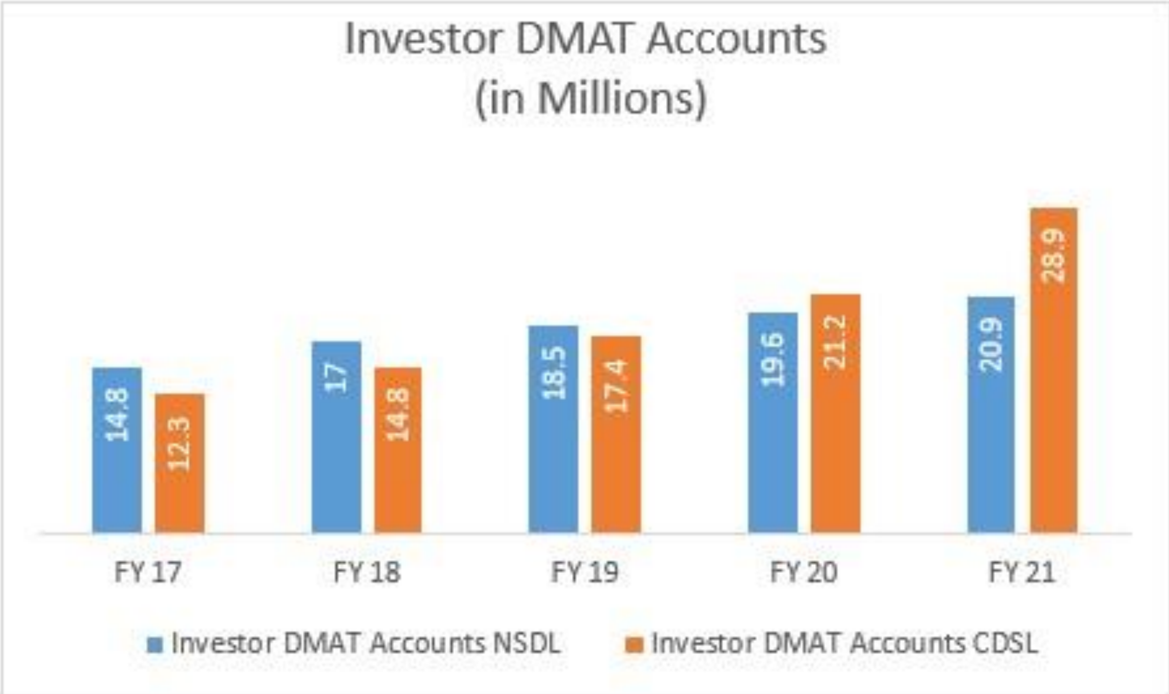
III. IMPORTANCE OF FINANCIAL LITERACY IN INDIA

Economic development is linked to the level of financial education in a country. Why it matters that Indians know how to manage their money:

- **Development of rural areas**: Financial education is a means by which rural areas can be reached and helped in their development efforts. One approach to accomplish this is to educate the public on how to best utilise existing resources.
- **Ease in borrowing**: 42.9% of the population, according to the RBI survey, borrows money from non-traditional lenders and thus pays higher interest rates. A solid financial education can aid small traders in making wise choices and optimising their resources.
- **Ease in doing business transactions**: Introduction of the Pradhan Mantri 280 million new bank accounts have been opened as a direct result of the Jan Dhan Yojana programme. The widespread availability of these accounts has greatly facilitated the elimination of cash from commercial transactions.
- **Growth of MSMEs**: The majority of India's exports and 29% of its GDP come from small and medium-sized businesses (MSMEs). The ability to manage one's finances effectively is a key factor in the development and expansion of small enterprises.

(A) Surge in equity market investors

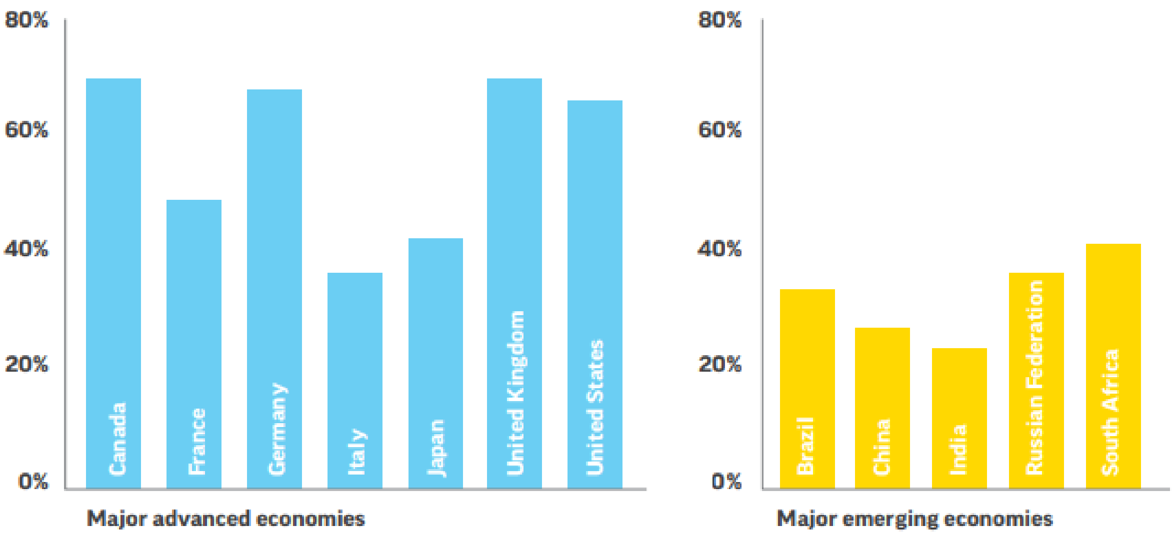
In search of higher returns, a growing number of first-time investors in India's stock market have migrated away from more traditional methods of investing and into the stock market in the previous two years. Even before the lockout and subsequent work-from-home with ubiquitous internet access, they were optimistic. The combined total of new accounts at CDSL and NSDL was 28.6 million between April and November of 2021.



Source: Business Standard

IV. High rates of financial illiteracy in India

REPRESENTATION 1: Percentage of Financial Literacy in Developed and Emerging Economies.



Source: S&P Global FinLit Survey by GFLEC

REPRESENTATION 2: Inter-state Disparities in Financial Literacy (India)

Table 1: State-wise level of Financial Literacy in India (2015)

Name of the State	General Literacy (in Percentage)	Financial Literacy (in Percentage)
Andhra Pradesh	60	23
Arunachal Pradesh	55	10
Assam	61	20
Bihar	50	8
Chhattisgarh	60	4
Goa	80	50
Gujarat	68	83
Harayana	65	21
Himachal Pradesh	73	16
Jharkhand	56	15
Karnataka	67	25
Kerala	84	36
Madhya Pradesh	59	23
Maharashtra	73	17
Manipur	69	36
Meghalaya	60	24
Mizoram	77	6
Nagaland	68	8
Odisha	64	9
Punjab	67	13
Rajasthan	56	20
Sikkim	73	8
Tamil Nadu	72	22
Tripura	67	21
Uttar Pradesh	57	10
Uttarakhand	68	23
West Bengal	67	21

Source: Data Compiled from the National Centre for Financial Education Report, 2015

Table 2: Union -Territories wise level of Financial Literacy in 2015

Name of the Union Territory	General Literacy (in Percentage)	Level of Financial Literacy (in Percentage)
Andaman and Nicobar Island	82.43	14
Chandigarh	81.19	38
Daman And Dui	79.55	29
Dadra And Nagar Haveli	64.32	31
Delhi	80.76	32
Puducherry	80.67	21
Lakshwadeep	87.95	22

Source: Data Compiled from the National Centre for Financial Education Report

The Global Financial Literacy Excellence Centre approximately 24% of adults in India can read and understand a balance sheet. When compared to other major emerging countries, India has one of the lowest levels of financial literacy. This is because of differences between states as well as a general deficiency in education and awareness. There is room for development in financial literacy, despite the fact that other rising economies have higher rates.

Table 1 and Table 2 show the financial literacy levels in India by state and union territory. The financial literacy percentages in the major cities of Maharashtra, Delhi, and West Bengal are 17%, 32%, and 21%, respectively. Literacy rates are particularly low in impoverished parts of India, such as Bihar, Rajasthan, Jharkhand, and Uttar Pradesh. The data reveal differences between the states. Goa has a literacy rate of 50%, making it the highest in India, while Chhattisgarh's literacy rate is under 4% and it has a serious shortage of financial knowledge

V. Initiative taken by RBI and SEBI for the improvement of financial literacy

(A) National Council Of Financial Education

National Centre for Financial Education (NCFE) is set up by the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), and other financial sector regulators (Pension Fund Regulatory and Development Authority [PFRDA] and Forward Markets Commission [FMC]) to improve financial literacy and inclusion in India. Every year, NCFE administers the National Financial

Literacy Assessment Test (NFLAT) to students in Grades 8 through 10. This assessment aids in the academic acquisition of financial literacy. The National Council on Financial Education (NCFE) has launched the Financial Education Training Programme (FETP) to increase financial literacy in the country by providing individuals and institutions with objective financial education. The program's overarching objective is to raise awareness and educate people about financial matters in order to improve their quality of life. The FETP is offered by NCFE to teachers of grades 8–10 all over India. Teachers who complete the programme and earn the "Money Smart Teacher" designation are prepared to lead their pupils through engaging financial literacy sessions and motivate them to develop fundamental money management abilities. A study by Verma, Nema, and Padagre (2017).

(B) Reserve Bank of India initiative on financial literacy

The Reserve Bank of India (RBI) is making strong efforts to increase financial literacy in India. The RBI is the oldest and most experienced financial Supervisory authority in India. The Reserve Bank and the Government have collaborated with commercial banks, NGOs, and SHGs to promote financial education in the community. According to research (Kamboj, 2014).

- The Reserve Bank of India (RBI) has launched a programme called "Project Financial Literacy". This project's goal is to educate different demographics about banking and central banks, such as young people, women, the impoverished in urban and rural areas, the military, and the elderly. A number of strategies are being considered for the project. The project's implementation plan calls for splitting the work into two distinct phases: the first will address the economy, the Reserve Bank of India (RBI), and their activities; the second will address general banking. Content is refined in both English and a number of other widely spoken languages. This information is disseminated to the appropriate audience through the RBI's own offices, banks, local government machinery, schools and universities, nongovernmental organisations, and other voluntary groups as well as through lectures, pamphlets, brochures, films, and the RBI website.
- Through town hall meetings and outreach events, RBI educates the public on the state of the economy, the banking system, and RBI itself. It also coordinates trips for children to come to RBI from nearby schools.
- In an effort to pique the interest of seventh through eleventh graders in economics, banking, and the Reserve Bank of India (RBI), an annual quiz programme was initiated.
- The Reserve Bank of India plays a crucial role in India's economic growth by promoting financial inclusion and educating the public. To that end, it has published a substantial

body of work in 13 different languages, making it accessible to banks and other interested parties. Awareness of financial products and services, sound financial habits, digitization, and consumer safeguards are all goals of this campaign.

- RBI's Financial Literacy Week is an annual event that aims to raise public consciousness about important financial issues by means of a concerted effort. As of 2020 (Reserve Bank of India).
- The Reserve Bank of India (RBI) has published the pamphlet FAME (Financial Awareness Messages) to teach the general population the basics of personal finance. Documents required to open a bank account (KYC); budgeting, saving, and responsible borrowing; keeping a good credit score and on-time loan repayments; doorstep banking and localised banking; the process of filing complaints at the bank and the Banking Ombudsman; the use of electronic transfers and the capitalization of money in registered entities; etc. are all covered in FAME.
- Videos on "Basic Financial Literacy," "Unified Payments Interface," and "Going Digital" have also been made to raise public understanding of these issues. Reserve Bank's illustrated booklet series titled "Raju" and "Money Kumar" were equally successful. The pamphlets "Raju" and "The Money Kumar" provided education on banking principles and thrifty behaviour, respectively, while "The Money Kumar" explained the functions of the Reserve Bank of India. A study by Verma, Nema, and Padagre (2017)

As of the end of March 2013, 718 Financial Literacy Centres had been established across India, with a total of 2.2 million people having been reached with financial education there between April 2012 and March 2013.

The development of a financial literacy framework is necessary to provide comparability among international studies on the topic and to provide direction on the nature, range, and metrics to be used in such studies. India's National Strategy for Financial Education was created to better inform citizens on their rights and responsibilities as customers of the financial sector and on how to make the most of the various financial products and services available to them. (Kamboj, 2014).

Banks are opening Financial Literacy Centres (FLCs) to educate their customers on money management, raise public knowledge of banking services, and offer counselling services.

Guide to Financial Education In order to ensure that all bank customers have a foundational understanding of financial goods and services, the Reserve Bank published a Financial Literacy Guide on its website on January 31, 2013.The Financial Education Camp Procedures, Financial Education Resources, and Financial Education Posters are all included in the accompanying Trainer's Note. To help readers get started with financial planning, the guide includes a financial diary they may use to record their income and expenses.

- Association with the World Bank and the OECD The Reserve Bank, in cooperation with the World Bank and the OECD, hosts an annual conference on financial education in an effort to learn from global viewpoints on measures to improve people's ability to manage their money. (Kumari, 2014).

(C) Securities exchange board of india initiatives on financial education

- In order to educate Indians about personal finance, the Securities Exchange Board of India has launched a broad-based initiative. To educate students, professionals, middle-class families, retirees, self-help organisations, and others about managing their personal finances.
- For your convenience, SEBI has appointed Resource Persons across all of India. All of the Resource Persons have extensive financial market experience and training in a variety of finance-related topics. To reach their audiences, SEBI Certified Resource Persons host workshops covering topics like "savings," "investing," "financial planning," "banking," "insurance," "retirement," and "etc."
- Investor groups all around India assist SEBI in its mission to educate investors. The organisation hosts regional seminars, in which participants from the stock exchange, depositories, Association of Mutual Funds in India, Association of Merchant Bankers in India, etc., all have a hand.
- The Securities and Exchange Board of India (SEBI) maintains an investor education website where users can access educational resources on a wide range of topics, including financial markets, products, and frequently asked questions (FAQs). Both English and local languages are supported by SEBI's publication of educational resources.
- Under the 'Visit SEBI' project, students from all levels of education are invited to the organisation to gain insight into how it operates. The (SEBI) has established the SEBI Helpline so that investors from all over the country can contact a toll-free number to get

answers to their questions and get advice on a variety of topics.

- Additionally, SEBI has begun a marketing effort aimed at educating investors. Fourteen different Indian languages can use the programme.
- Investors can check the status of their complaints and see what steps have been taken to resolve them by visiting the SEBI's Complaint Redress System (SCORES), a web-based, centralised grievance redress system. The CPGRAMS (Centralised Public Grievance Redress and Monitoring System) has been linked up with SCORES as well.
- Through a countrywide initiative, the Securities Exchange Board of India is educating Indians about personal finance. National Institute of Securities Market (NISM) was founded by SEBI, and it has since launched a "School for Investor Education and Financial Literacy" to help people from all walks of life become more financially literate. Since 2014, NISM has also run an Investors Education curriculum. In schools around the country, NISM hosts annual financial literacy quizzes and implements the Pocket Money financial literacy programme (Verma, Nema, & Padagre, 2017)

VI. Why India needs financial education and what it can do with it

The new economic policies in India have been a huge obstacle for small businesses. Battery, handicraft, toy, tyre, dairy, and vegetable oil producers all felt the effects of increased competition and poor debt management. After the agricultural industry, small and medium-sized businesses employ the most people in India (about 11.10 crore). Nonetheless, many businesses are going out of business, leaving their employees unemployed.

Additionally, small businesses typically lack familiarity with conventional loaning options.According to "Persistence of Informal Credit in Rural India," part of the RBI Working Paper Series, 42.9% of borrowers in India get their money from non-bank lenders (such commission agents and money lenders). The interest rates charged by these alternative lenders for loans are often very high. Debt is a trap that many businesses fall into due to careless financial management. To make the most use of their resources, small business owners and managers would do well to have a thorough understanding of financial management.

(A) Managing Income

Young people and individuals have trouble keeping track of their finances. The ratio of savings to spending is too low. The majority of people have no idea how to save money or invest it. Students interested in a career in finance face limited opportunities to learn about the subject in school.

 [ISSN 2581-5369]

People in big cities like Mumbai and Delhi have a hard time budgeting their money. While Investment in Fixed assets has grown at an astounding rate, The Hindu's findings show that life and health insurance have been grossly neglected. The vast majority of people hoard their wealth at home rather than putting it to work for them. Poor financial planning is on full display in such choices. This means that there is no growth in purchasing power for the savings. Financial literacy leads to better money management. As India continues to develop and broaden its foundation, its citizens would do well to invest in themselves by acquiring a solid understanding of personal finance.

(B) Financial Literacy in School Curriculum

There can be no doubting the significance of requiring financial literacy education in all Indian schools. To address persistently low literacy rates, the government has implemented many initiatives over the years. However, there is a major issue with all of the started programmes, and that is a lack of implementation.

Financial education initiatives from the PFDRA, the Insurance Regulatory Development Authority, the Securities and Exchange Board of India, and the Reserve Bank of India have all existed only on paper. The typical Indian middle class person or student has no idea that these programmes exist. Therefore, it is essential to start financial education at the ground level, with students and recent graduates. Teachers should be required to take courses on financial literacy. Teaching pupils about finances through the use of concrete examples is an effective method of communication. The gap in financial literacy can be closed with the use of practical knowledge and properly targeted financial education courses.

(C) National Strategy for Financial Education Report 2020-2025

India's central bank, the Reserve Bank, has published a report titled "National Strategy for Financial Education Report 2020-2025."The "5 C's" strategy is the main plan of action for improving people's knowledge of money management in the country. Content, capability, community, communication, and collaboration are the approach's focal points. The goals of the report are to increase financial literacy and personal agency among Indians. To make this happen, the Financial Stability and Development Council (FSDC) collaborates with the Technical Group of Financial Inclusion and Financial Literacy (TGFIFL). These measures will help India on its way to become a financially literate nation. However, these are novel and antagonistic policies. It will be necessary to wait till the future to evaluate its success.

(D) Impact of social media on financial literacy

The significance of social media to increase financial education in India cannot be overstated.

It was a major factor in the recovery of the economy after the pandemic. A profusion of stock market training institutions, channels, and websites emerged during this time period. The top 15 Indian stock market-focused YouTube channels have a combined subscriber base of over 13 million. As the use of the internet and other digital platforms has increased in the country, investment has grown in popularity. Many people decided to start investing in the stock market or mutual funds for the first time. In 2020, it is expected that retail investors would account for 45% of cash market turnover, up from 39% this year.

VII. Conclusion

The financial literacy of a population is crucial to the success of any economy. If people are better able to manage their money, the economy as a whole will benefit and become more stable. All of India's primary regulators have mandated praiseworthy initiatives to increase citizens' knowledge of financial matters. In spite of widespread efforts, most Americans still lack a solid grasp of personal finance. If parents are financially illiterate, it may be helpful to introduce fundamental financial concepts into the classroom at a young age so that children can pick them up from an early age. Higher education institutions have an opportunity to equip their students with the advanced financial literacy ideas necessary for sound financial planning and the use of a wide range of financial products. The initiatives of regulatory organisations can be checked periodically. If the government implements new policies to promote financial literacy and broaden access to the financial system, we may be able to achieve a more stable economy.

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