FINANCIAL LITERACY IN INDIA

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Introduction

India constitutes 18 per cent of the world's population. India still remains overwhelmingly rural, with nearly 69 per cent of its population still residing in villages. Out of the total 1,210.2 million population in India, the size of rural population is 833.1 million which forms 68.84 per cent of total population (Anupam Hazra, 2013). India is one of the fastest growing economies in the world. In the post reform period, India has done well in some indicators such as economic growth, exports, BOPs, resilience to external shocks, service sector growth, significant accumulation of foreign exchange reserves, IT and stock market, improvement in telecommunications and the line. Despite the significant and appreciable improvement in these indicators, Indian economy miserably failed to bring down unemployment and poverty to tolerable levels. The plan document (11th and 12th Five Year Plans) also notes that the economic growth has failed to be sufficiently inclusive, particularly after the mid-1990s. Although economic growth has improved, people at the bottom of the pyramid have not benefitted much and inequality has not declined significantly.

The Human Development Report-2014 released by the UNDP in Tokyo on July 24th has ranked India 135 in a list of 187 countries. India is home to the largest number of poor with 1/3rd of the world's 1.2 billion extreme poor living here (The Times of India, 17th July 2014). In India, 25 per cent of the population live below the poverty line and over 40 per cent of the population is illiterate (www.poor.org.in). Further, a vast majority of the population remained outside the ambit of basic health and educational facilities during this higher growth phase. Moreover, there is a criticism that globalization and economic reforms do not have 'human face' and have not achieved inclusive growth. A number of rural households are still not covered by banks. They are deprived of basic banking services like a savings account or minimal credit facilities. The above said facts clearly indicate that the benefits of economic growth have not been equitably shared by all. As a result, inclusive growth has become a national policy of the Union Government.

Today, there is a national as well as global focus on inclusive growth. Several countries across the globe now look at financial inclusion as the means for achieving inclusive growth and India is no exception to this. Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. The term 'financial inclusion' has gained importance since the early 2000s, a result of findings about financial exclusion and its direct correlation to poverty (Sonam Kumari Gupta, 2015).Even after 68 years of independence, a large portion of the Indian population still remains excluded from the banking net. The extent of financial exclusion in India is found to be higher as compared with many developed and some of the major emerging economies. It is important to note that most of the excluded groups include women, Scheduled Castes (SCs), Scheduled Tribes (STs), Minorities, migrant households and involuntarily displaced people.

As far as India is concerned, the Government of India, the Reserve Bank of India and other authorities concerned have been taking a number of measures in order to make the growth process as an inclusive one. The important initiatives undertaken for achieving inclusive growth in India include nationalization of banks, prescription of priority sector lending, differential interest rate schemes for the weaker sectors, development of credit institutions, formation of Self Help Groups, expansion of bank branch network, expansion of business correspondent agent (BCA) network, Swabhimaan Scheme, Direct Benefit Transfer, RuPay Card, introduction of financial inclusion products and the like. One of the important initiatives in that direction is the Pradhan Mantri Jan Dhan Yojana (PMJDY), a National Mission on Financial Inclusion. Pradhan Mantri Jan Dhan Yojana was formally launched on 28th August, 2014. The Yojana envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance and pension. The PMJDY is different from the earlier financial inclusion programme as it, inter-alia, seeks to provide universal access to banking services across the country.

In spite of these efforts, the benefits of economic growth are not equally enjoyed by all and still a vast majority of the population is not brought under the ambit of the formal financial institutions. Even the majority of the low-income and socially disadvantaged groups which are already covered under the financial inclusion plans are not carried on any active financial transactions in their accounts. Most of the accounts opened under the financial inclusion initiatives were dormant accounts. Though the PMJDY has successfully exceeded its financial inclusion target by opening 115 million bank accounts, most of these are 'zero-balance'. Of the accounts opened at public sector banks under the PMJDY, 71 per cent are zero-balance against 64 per cent for private banks. At present, majority of these accounts (about 70-75 per cent) still do not have money in them, even though the scenario has started change once the government's direct benefit transfer start flowing in through these accounts.

Financial literacy – Definition

Generally, literacy refers to a person's ability to read and write (Zarcadoolas, Pleasant, and Greer, 2006). Literacy in the broadest sense denotes the ability to understand (that is, knowledge of words, symbols and arithmetic operations) and use (ability to read, write and calculate) the materials related to prose, documents and quantitative information (Huston, 2010).

Financial literacy is "the ability to make informed judgements and to make effective decisions regarding the use and management of money" (Noctor et al.1992). Atkinson and Messy who describe it as "a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial well-being". The OECD defines financial literacy as "a combination of awareness, knowledge, skill, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial well-being".

Although, several financial literacy definitions are put forward, there is none which is universally accepted. So, financial literacy could be defined as measuring how well an individual can understand and use personal finance-related information.

Different kinds of literacy include computer literacy, statistical literacy, general literacy, health literacy and the like each of which measures the ability of the individuals in understanding and using information in the respective field. The financial literacy, financial knowledge and financial education are often used interchangeably in the literature and popular media. Like general or health literacy, financial literacy could be conceptualized as having two dimensions – understanding (personal finance knowledge) and use (personal finance applications) (Huston, 2009).

Need for Financial Literacy

One of the most important reasons for massive financial exclusion in India is the lack of financial literacy. Lack of literacy in general and financial literacy in particular has been a major constraint in expanding the coverage of financial services to the poorest segments of the society. The extent of financial exclusions in India is found to be higher as compared to many developed and some of the major emerging economies. It is important to note that most of the excluded groups include women, scheduled castes, scheduled tribes, minorities, migrant households and involuntarily displaced people. Further, it is deeply shocking to note that among below poverty line (BPL) population, farmers in rural/tribal areas constitute a sizeable percentage.

Financial literacy aims at building people's capability to use the financial products and services. Financial literacy helps in creating demand for the financial products offered under the financial inclusion initiatives. The credit facilities extended by the banks and other government agencies do not reach the real beneficiaries as they do not have the information and right contacts to get access to such facilities. Proper financial literacy would enlighten the excluded people on the basic financial skills and guide them properly manage their budget by appropriately balancing their expenses, borrowing and savings. Further, adequate knowledge on various financial products and services would enable the farmers to take effective financial decisions which in turn would result in household well being. Financial literacy is an important correlate of household financial behavior and household wellbeing. It is one of the strongest and most consistent predictors of demand for financial services. A compelling body of evident demonstrates a strong association between financial literacy and household wellbeing in developed countries. It is imperative to educate the excluded groups on the various dimensions of financial literacy as the financial markets are becoming increasingly complex. The existing studies also point out that individuals who are not financially literate tend to borrow at exorbitant interest rates (Stango and Zinman, 2009). Financial literacy positively influences the ability to select the best credit alternative (Caratelli and Ricci, 2011). Financial knowledge and financial education training have a significant impact on the take up of a complex financial product (Gourav et al. 2011). Consumers benefit from investment in financial literacy because it allows them to increase the returns on their wealth. Adequate knowledge on various dimensions of financial literacy is essential for the poor to take effective financial decisions. Moreover, the efficient financial planning and effective execution of that financial decision would ensure their overall wellbeing.

How to make India a Financially Literate Nation?

Financial literacy is considered an important element in promoting financial inclusion and ultimately financial stability. Financial literacy would help the financially-excluded to understand the benefits and the ways to join the formal financial system. It could also benefit the financially excluded by enabling them to make proper choices of the products and services available in the market to their best advantage. As financial literacy and financial inclusion are complementary to each other, an inclusive growth cannot be achieved without inclusive financial system and financial literacy. The author of this paper suggests the following measures to make India a financially literate nation:

1) As far as India is concerned, a few studies on financial literacy have been conducted. The authorities concerned are expected to undertake extensive research on financial literacy. It is needless to state that the outcome of the research work will not only help to understand the existing level of financial literacy of the excluded groups but also identify the most important factors influencing their financial literacy.
2) The outcome of the research studies on financial literacy would help the authorities concerned to device the suitable training programmes and financial literacy modules aim at improving the financial knowledge of the all stake holders in general and that of the socially excluded in particular.
3) Proper research on financial literacy would help to understand the extent to which the financial products in general and financial inclusion products in particular suit the needs and requirements of the people.

4) The authorities concerned might establish a national level institute called Institute of Financial Engineering and Financial Literacy for the purpose of devising a suitable financial product and creating awareness among the uses of the products.
5) The concept and the importance of financial literacy might be incorporated in the curriculum of the schools, colleges and universities in order to make the students financially literate.
6) All the stakeholders are expected to play an important role in the promotion of financial literacy in India. The Government of India might establish a separate fund called Financial Literacy Fund (FLF). Thereafter, the government may invite donation from the members of the general public towards this fund. Provision of tax benefits for the contribution to FLF would encourage the general public to make contribution.
7) As per the provisions of the new Companies Act, 2013 all eligible companies are required to spend 2 per cent of their net profit for social activities. The Ministry of the Corporate Affairs might direct all the eligible companies to spend a certain percentage of their contribution under CSR for the promotion of financial literacy in India.
8) Every bank or financial institution operating in rural areas might be encouraged to establish financial literacy centres to promote the level of financial literacy of the people living in and around the areas of its operations.
9) A committee called 'Financial Literacy Committee' might be established in every village. The village presidents, service providers, teachers, students and members of Self Help Group should be included as members of this committee. A periodical interaction and discussion among the members of this committee would help to develop suitable policy or strategy to expedite the process of financial literacy and financial inclusion.
10) The educational institutions might undertake the awareness programme on financial literacy as part of their extension activities with a view to promote the financial literacy of the socially excluded people.

Summary and Conclusion

The review of existing literature on financial inclusion and inclusive growth clearly reveals that absence of financial literacy is main barrier to achieve inclusive growth. So, the policy makers, regulators and other authorities concerned of both the developed and emerging economies have been introducing a number of policy measures to break such barriers. The review of the various studies undertaken in developed as well as developing countries clearly reveals that the financial literacy significantly influences the financial behavior of the people. In India, all the stakeholders should come forward to engage themselves in the promotion of financial literacy of the people in general and that of the socially excluded in particular. A due consideration given by the authorities concerned to the various strategies recommended by the author of this paper would certainly make India a financially literate nation.

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