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Refereed | Peer Reviewed | Indexed
ISSN: 2454 – 308X | Volume: 08, Issue: 02 | April - June 2022

# Pathways to Navigate Financial Literacy Landscape in Indian Context

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**DOI:** https://doi.org/10.36676/irt.v8.i2.1565
Check for updates
Published: 30/06/2022
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**Abstract**
In the rapidly evolving India, financial literacy and inclusion are important drivers in the development of the country. However, there are challenges and gaps in meeting adequate financial literacy. These gaps translate into limited financial decision-making capabilities, economic inequality, barriers in economic growth, vulnerability to financial scams, digital financial exclusion, etc. There is also a segment connecting financial literacy and its inclusion to economic development and how Covid-19 affected the landscape. This research paper is an attempt to examine the landscape of financial literacy and inclusion in India, the various issues and challenges faced by individuals and MSMEs in accessing financial services The paper also looks at the various government initiatives taken in this domain. After an analysis of existing government interventions and various initiates, many actionable recommendations have been discussed that aim to accelerate the spread of financial literacy e.g. leveraging education, various digital platforms, and creating target audience specific initiatives to be relatively more effective and hence, fast pace financial literacy. Special emphasis has been placed on women, vulnerable groups and on launching scalable initiatives. The recommendations have been curated to suit Indian context. This research attracts attention to multi-stakeholder approach to financial inclusion and hence, recognising the role of various elements of the landscape in achieving India's inclusive growth.
**Keywords**
Financial literacy, Financial inclusion, Economic inequality, Digital financial literacy, Financial empowerment,

## 1. INTRODUCTION

**"Money is one form of power. But what is more powerful is financial education" Robert Kiyosaki**.

This quote is quite relevant in modern era where the role of government in financial sector is diluting with the rising participation of private participation. It is imperative for present investor to be more vigilant and capable enough. It is necessary for him to be financially literate so that he may make prudent investment after analysing all the plethora of financial instruments available in this complex environment. Undoubtedly a person should be financially empowered and for this, financial education is pre-requisite as financial education is guide for good financial planning and for wise use of funds unutilised. Financial literacy inculcates a number of financial abilities e.g. management of finance, budgeting and investing. Higher financial literacy assures higher flexibility during both predictable and unpredictable life events "Financial education helps prospective investors to appreciate both financial terminology and financial instruments and this knowledge and guidance inculcate confidence among them so that they can brave any financial risks and thus avail investment avenues successfully" (OECD,

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2005). The concept of financial literacy includes a good matrix of various variables -cognizance, information, skill, brashness and behaviour. These are needed while making comprehensive financial planning and thus leads to attain micro financial well-being (Financial Literacy and Inclusion in India Final Report National Centre for Financial Education NCFE 2019).

Our country is the 5th largest economy in the world known as young nation having 89.65% as youth literacy rate which is quite high. But it is a great irony that we have very low financially literate adult population being i.e. 24% (Global Financial Literacy Excellence Centre) being lowest if we compare it with that of many emerging economies. According to Financial_Industry Regulatory Authority (FINRA) percentage of financial literacy in America is quite high being about 66%. S&P survey 2015 presents a sorrow state of affairs that explains that more than 75% adults in India are not able to follow basics of financial terminology. The scenario gets worsened in case of women as about 20% women are financially literate. All this results in making poor financial decisions and creating huge loss. Moreover, this series does not end here and creates an alarming atmosphere around prospective investors and prevents them from grabbing a fruitful opportunity. Finance Minister Nirmala Sitharaman explained to the members of Rajya Sabha that 9 crore accounts in Indian banks are still having unclaimed amount of Rs 26,697 crores as on December 2020 and these accounts are not in operation for more than 10 years. These persons who made huge savings but unfortunately could not enjoy that amount nor could pass it to their future generations. Hence, a drive on financial education is undeniably indispensable to make financial inclusion more expressive and enable citizens' grasp financial well-being. Despite having a population of above one billion, a major chunk of our adult population is yet to expand upon its understanding about elementary financial perceptions. India needs to convert savers into investors and in fact financial literacy can work in this direction.

India is likely to be ranked among top financial literate countries in the world because 27.6% of its youths in the bracket of 25-44 stay participating in the financial inclusion drive through financial education. And undoubtedly this figure may be above 20% in next two decades, if appropriate financial guidance is extended to the teenagers who are about 21.8% of population. Financial aptitudes could contribute to general economic growth and upsurge the standard of living. Our nation could be a front global runner if it is financially savvy (India's growing financial literacy, IBEF, Jan 27, 2022). https://www.ibef.org/blogs/india-s-growing-financial-literacy.

## 2. REVIEW OF LITERATURE

The authors found that family upbringing plays a pivotal role in reshaping the financial knowledge of youths. Their educated mothers keep themselves better abreast of financial terms such as saving, investment, mutual funds, inflation et.al. Furthermore, those respondents have a higher knowledge of risk diversification whose parents had invested in stocks or retirement savings when they were in their teens. Thus, financial knowledge can be passed on from parents to children (Lusardi, et.al., August 2009). Being financially literate doesn't mean only awareness about few financial concepts, rather it composes of financial behaviour, attitude and knowledge (INFE OECD, 2011). The study stated that even salaried employees knew less about new financial products and services and hence they are disadvantaged of associated returns. However, they are relying on traditional financial products like fixed deposits, bank loans, etc. Agarwalla et al. (2013) surveyed that socio demographic features also determine the financial literacy level of Individuals. The study focussed upon various demographic factors such as gender, age, marital status, financial decision-making process, budgeting of expenditure, joint family (Puneet Bhushan, 2014). Financial literacy is significantly vital because wealth is an essential portion of our lives. Everybody has to deal with money. Financial well-being is as integral as physical well-being and mental well-being (Booth N.) In modern economy, financial literacy and education have become more important than ever. With the increasing complexity of financial systems and the rise of digital currencies, it is imperative that individuals have a solid understanding of basic financial concepts and skills to navigate their way through the financial landscape successfully (Lusardi, A., & Mitchell, O. S. 2014).

## 3. FINANCIAL LITERACY

### 3.1 THEORETICAL FRAMEWORK

Financial Literacy is a sum of financial attitude, financial behaviour and financial knowledge.

| *Financial Literacy = Financial Attitude + Financial Behaviour + Financial Knowledge* |
|---|

**Financial Knowledge** being an integral part of financial literacy is imperative for various activities e.g. ensuing news about the economy and financial landscape, comparing financial products and services and making appropriate and well-informed financial decisions. **Financial Behaviour** contains working of consumers that shape their short term and long term financial security. **Financial Attitude** is defined as that outlook or mental disposition of consumers that directs them to move in a specified manner.

### 3.1.2. FINANCIAL LITERACY AND ECONOMIC DEVELOPMENT

Financial literacy and financial inclusion are two important pillars for the economic development of any country. In fact, financial literacy acts as a guide while achieving success in the process of financial inclusion in the country. Financial literacy acts from demand side that is making people aware of about the products and services available in the market, on the other hand financial inclusion stimulates supply side providing the access to financial market/service what people demand. Financial stability can be procured only when two main variables i.e. financially literacy and financially inclusiveness exist in the economy. Because financial literate people first explore various products and services launched by banks and financial institutions before taking any decision. All this process helps to quicken the speed of financial inclusion. In this way even a common man can get access to banking system instead of pursuing the traditional money market (Meera Santoshi, 2016). Hence, they are able to protect themselves from the clutches of both greedy and luring segment- sahukars and fraudsters.

### 3.1.3. IMPACT OF COVID AND FINANCIAL LITERACY

Covid-19 taught us many things. Entry of covid-19 in our lives has transformed our perspective towards financial literacy. Because unanticipated financial stress forced people to mend their ways towards life because many of them had to go through odd times- pay cuts, loss of jobs, huge business losses and so on that made them financially aware. Covid has taught them learn value of both economic variables i.e. saving and investment. Moreover, they have come to know how to draft a financial plan for future that will help them to come out of financial emergency. The National Strategy for Financial Education 2020-2025 is a right movement in this direction that involves “5Cs” approach for disseminating financial education: curriculum in schools and colleges; capacity of intermediaries providing financial services; community-led model for financial literacy; enhancing collaboration among stakeholders. Apex bank of India, RBI comes up with a different theme every year. In 2021 theme was “Credit Discipline and Credit from Formal Institutions”; in 2020, it was “Micro, Small and Medium Enterprises”; and in 2019, focus was on “Farmers”, focus shifted to “Consumer Protection” in 2018. Although theme goes on changing every year but revolves around the need of financial literacy among the investors.

## 4. GOVERNMENT INITIATIVES FOR FINANCIAL LITERACY

Government of India and RBI has taken several initiatives to promote financial literacy & financial inclusion in the country but the results are not very convincing. The regulatory bodies RBI, SEBI, IRDA and PFRDA have been working together for the improvement of financial literacy and inclusion in the country. It was mandated by RBI that banks should make efforts for promoting financial and then issued draft for the same in the year 2012 (RBI, 2012**).** RBI has been playing a key role in the development of economy.

Financial Inclusion and Education are two important elements in the Reserve Bank of India's developmental role. Towards this, it has created critical volume of literature and has uploaded on its website in 13 languages for banks and other stakeholders to download and use. The aim of this initiative is to create awareness about financial products and services, good financial practices, going digital and consumer protection. Financial literacy as a tool for financial inclusion and client protection – reports on the studies undertaken under financial inclusion project of UNDP in 7 UN focused states and discussion on UNDP supported microfinance community of practice, solution exchange, Nov 2012. An important initiative is National Strategy for Financial Education (NSFE) is to strengthen financial literacy practices across individuals and micro, small, and medium enterprises (MSMEs) in order to enhance financial inclusion. It also covers practices to promote usage of digital financial services and hence enhance protection and awareness against digital and financial frauds.
RBI also organises an annual Financial Literacy Week (FLW) wherein each year a theme relevant to financial literacy is being focussed upon. In 2019, the theme was Farmers which focused on responsible borrowing and financial planning. In 2020, it was Micro, Small, and Medium Enterprises (MSMEs) to emphasize on formal financial systems and digital security. The theme for 2021 was Credit Discipline and Credit Cards and it targeted individuals and businesses for credit awareness. Lastly, in 2022, the theme was Go Digital, Go Secure that aimed to promote safe digital financial transactions. To support the financial inclusion agenda, the government also launched Jan Dhan Darshak App to assist the people of the country in locating banking touchpoints which includes ATMs, bank branches, and financial literacy centres. Additionally, PM Jan Dhan Yojana (PMJDY) Financial Literacy Drives in rural and underserved areas have been popularised to support financial literacy by conducting workshops and awareness programs for account holders.

## 5. RECOMMENDATIONS

As established earlier, adequate financial literacy and financial inclusion are pillars of strength to foster economic resilience in the economy. Moreover, it enables citizens to make informed financial decisions. The various initiatives by the government are critical. However, there is a space to accelerate financial literacy and inclusion. Moreover, a number of pathways are essential to make a strong foundation in this sector. First and foremost is to incorporate financial education into the curriculum at school level. Working in tandem with education boards to curate financial education content with practical long-term implication will lay a strong foundation. Secondly, launching digital financial literacy campaign at scale and in vernacular language will sensitize safe and informed usage. Possibilities to partner with telecom companies will help deliver multi-lingual campaigns on UPI, mobile wallets, and internet banking, etc. Another pathway can be to leverage corporate social responsibility (CSR) initiatives over indexed on financial education, especially among women and marginalized groups.
To ensure equitable adoption of financial service and promote financial inclusion among women and vulnerable groups, gender specific financial literacy interventions need to be designed which not just promotes financial literacy but also addresses the unique set of challenges faced by women or these groups while attempting to gain awareness. A thorough output-outcome matrix evaluation and monitoring should be done to test the effectiveness of such initiatives after a significant period of running the intervention. Additionally, one should not undermine the power of media and technology

when it comes to sensitise the public about any concept that has social or economic implications. And hence, utilising mass media modes like, television, radio and most importantly social media platforms to promote financial literacy can be impactful. This is because such mode of disseminating information has wider and mush deeper reach in a country like India. The government can also collaborate with concerned stakeholders to broadcast a program sharing the real-life success stories in which financial inclusion uplifted individuals and families into achieving better things. All these recommended initiatives coupled with due evaluation and impact assessment measures can accelerate the path to achieving financial inclusion and literacy.

## 6. CONCLUSION

It is clear that financial literacy and inclusion are the drivers of economic growth of India. Though various government and private initiatives have been taken, a significant gap still remains among women, rural population and vulnerable groups. It is not only government but societal imperative to address these gaps. The many actionable recommendations presented in this research which ranges from integrating financial literacy into education, scalable digital campaigns, media, television and CSR partnerships, presents various pathways to bridge the gap. It is implied that a proper tracking, monitoring and evaluation is required to gauge the effectiveness of each initiative and then refine them on the basis of learnings from the pilots. Financial literate and inclusive society hold the power to unlock the true potential of India's demographic divide, diversity and young minds. In tandem efforts by government, private sector, academia and civil society can help realise the journey towards financial empowerment.

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