

Financial Literacy in India: A Review of Literature

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ABSTRACT

Due to rapid growth in Indian economy over the last decade and expansion of financial markets through liberalization, privatization and globalization have given a way to overabundance of financial products in banking, investment and loan products. Low level of financial literacy prevents individuals from making right choices regarding financial decisions. To achieve the objectives, individual must invest his/her savings in right investment alternatives. The objective of the study is to study the level of financial literacy in India by using literature based analysis. Secondary data collected from various websites, journals, research papers and articles. It is found that financial literacy in India is very low and necessitates exertion to mend level of literacy.

Keywords: *Financial Literacy. Financial knowledge. Financial behaviour and Financial attitude.*

INTRODUCTION

Due to rapid growth in Indian economy over the last decade and expansion of financial markets through liberalization, privatization and globalization have given a way to overabundance of financial products in both banking, investment and loan products. Low level of financial literacy thwarts individuals from creating veracious choices apropos financial decisions. To accomplish the objectives, individual must capitalize his/her savings in right investment alternatives.

Demographically India uses 2.4% of world's land with 17.5% share in world's population¹. The financial system of a country plays a key role in economic development. Since independence Indian leaders are aiming to eradicate poverty and turn India into vibrant, self-reliant global economy and embedded financial literacy needs in every citizen's life. India is traditionally a country of enthusiastic savers (K N Narendra-2015). Indians are suffering from financial diseases like under insurance, debt trap, insufficient retirement fund and low return on investment due to low financial literacy.

According to Organization for Economic Co-operation and Development (OECD) "financial literacy as a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual wellbeing"². Based on OECD recommendations, India created top level institutional structure in 2011 under the aegis of Financial Stability and Development Council (FSDC). Group of Financial inclusion and Financial Literacy headed by Deputy governor RBI and National centre for Financial Education are set up to enhance financial ability of 500 million adults.

OBJECTIVES OF THE STUDY

The foremost objective of the research is to study the level of financial literacy in India by using literature based analysis.

Methodology

The study is qualitative and literature based exploration. Data composed from secondary sources which comprise research articles,

¹. Lavanya Rekha Bahadur, Financial Literacy: The Indian Story, World Journal of Social Sciences, Vol – 5, Issue-3, September 2015, PP. 45-57.

². ECD INFE (2011) Measuring Financial Literacy: Core Questionnaire in Measuring Financial Literacy: Questionnaire and Guidance Notes for conducting an Internationally Comparable Survey of Financial literacy. Paris: OECD.

websites, newspaper articles, reports and Journal articles.

Literature Based Review

Kamal Gupta et al. (2014), assessed the level of financial literacy amongst 87 micro Entrepreneurs of Kangra district of Himalaya Pradesh based on record keeping, various institutional awareness, savings, investment plans, savings management and various loan products. It is found that most of respondents are responsive of bank loans, less awareness about other financial institutions. Overall possess low financial skills which reflected in deficient record keeping, poor cash management, improper savings habits, less awareness on financial products. Research suggested that to create more awareness and financial alternatives for well-being of micro Entrepreneurs.

Lavanya Rekha Bahadur (2015), analysed two pillar of the economy: financial literacy and financial inclusion and its current scenario as well as common people perspective about financial instruments. Data collected from 202 Mumbai and thane district individuals. It is found that level of financial literacy is very low and suggested to encourage financial literacy from school level, national level programs and seep effort to the grass root level. K N Narendra (2014), discussed the role of Financial Planner in the era of overloaded information. Study suggested that the persistent and prolonged efforts by all stake holders to educate and bring down revolution in India. Sumit Agarwal et al. (2010), examined investment behaviour, liability choice, risk tolerance and insurance usage of 1,694 Hyderabad respondents who are interested in personal finance. Data for analysis provided by Investment Yogi Financial Advisory Services. Majority of respondents are financially literate—they answered the numeracy, inflation and diversification questions correctly. Study found that majority of males with higher education level and aggressive investors are more literate than females and less educated.

Ratna Achuta Paluri (2016), analysed factors influencing financial attitudes of Indian women to classify Indian women based on attitude with 9 variables: anxiety, interest in financial issues, intuitive decisions, precautionary savings, free spending, materialistic and fatalistic attitude, propensity to plan for long and short term financial goals. Study used confirmatory factor analysis to cluster the women of Nashik city. Based on cluster analysis classified customer into judicious consumers, conservative

consumers, acquisitive consumers and unsure consumers. It is found that only one third of respondents did not buy any financial products, most preferred products were fixed deposit and insurance. And also found that cluster 1 followed by cluster 3 seems to be attractive for marketers, cluster 4 is unattractive. V Mathavathani et al. (2014), focused on financial literacy of rural women in Tamilnadu based on 3 factors: knowledge, behaviour and attitude. It is found that very low financial literacy among rural women.

Puneet Bhushan et al. (2013), conducted survey of 516 salaried individuals of Himachal Pradesh using multistage sampling to check the financial literacy level. It is found that overall literacy level is low and financial literacy level of male is more than females. Level of education, income, nature of employment and place of work influence on financial literacy whereas geographical region does not influence on financial literacy.

Harsha V Jariwala (2014) assessed the financial literacy level of individual investors in Gujarat state, India and its effect on investment decision by considering 44 variables. The research found that 39.2% of 285 respondents are higher level of financial literacy and found that financial literacy does have statistically significant effect on investment decision. Priyanka Agarwal, et al. (2015), emphasis on financial literacy importance for managing finances and investment pattern of both teaching and non-teaching female staff (20 teaching and 20 non-teaching female staff) in education sector of Jhansi District. It is found that most of working women are aware of Investment Avenue and invest their savings in bank and post office fixed deposit. Visa Financial Literacy Survey (2014), depicts Indians are least financially literate people across the globe with youngsters and women struggling most with their financial knowledge. Only 25% of total population in India are financially literate and ranked 23rd among 28 countries.

CONCLUSION

Rapid growth of Indian economy and complex financial market leads to improper financial decisions. To achieve the financial objectives one has to possess basic financial skills, awareness, knowledge, attitude and good demonstrated behaviour. Various studies reveal that the financial literacy level in India is very low, especially women and youngsters who are struggling with their basic financial knowledge.

Financial Literacy in India: A Review of Literature

Although many initiatives from RBI and government on financial literacy improvement financial literacy level is still low. It is necessary to mend level of literacy through new initiatives.

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