

## Financial Literacy in India

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### ABSTRACT

Evidence from different parts of the globe shows that a lack of financial literacy has prompted the initiation of financial literacy programs in numerous countries. The scope and approach of these programs differ significantly across various nations. In India, the demand for financial literacy is increasing due to the low levels of overall literacy. The primary objective of this paper is to present the current status of financial literacy in India, based on secondary data collected from a variety of websites, research papers, articles, and publications. Different survey findings and financial education initiatives launched in India aim to raise the standard of financial literacy in the country. This study also presents some suggestions to make our financial literacy programs more efficient. Policy changes are essential to boost financial literacy, enabling individuals to save and invest wisely in different market opportunities. The study offers an analytical framework for shaping policies that enhance financial literacy in India.

**Keywords:** financial literacy, financial knowledge, RBI initiative, financial components.

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Financial literacy is the ability to understand and effectively use various financial skills including personal financial management, budgeting and investing. Financial literacy is knowledge and understanding of financial concepts, risk, skill, motivation and confidence to apply such knowledge and understanding in order to make effective decision across a range of financial context to improve the financial wellbeing of individual and society. It is cognitive understanding of financial component and skills such as budgeting, investing, borrowing, taxation and personal financial management.

RBI defines financial literacy as the knowledge, skill and attitude that help people make sound financial decision. It also includes understanding financial risk and concept.

As per RBI:

- Financial literacy is a combination of knowledge, skills, attitude and behaviour.
- It includes understanding financial concepts and risks.
- It includes the ability to evaluate financial product and services.
- It helps people make informed decision about their financial resources.

The absence of such skills is referred to as being financially illiterate. According to the financial industry regulation authority(FINRA) about 66% of the American population is considered financially illiterate.

Being financially literate allows an individual to be better prepared for specific financial roadblock, which in turn decreases the chances of personal economic distress. Achieving financial literacy is crucial in today's society due to everyday facets of life such as student loans, mortgages, credit card, investment and health insurance. Financial literacy is the ability to manage and make decision related to personal finance. It can help you pursue financial freedom later in life when you can live without worrying about expenses or debt, Financial literacy provides you with the knowhow to have the money to do the things you want to do.

### Fundamental components of Financial literacy

Financial literacy consists of several Financial components and scale that allow an individual to gain knowledge regarding the effective management of money and debts.

Following are the fundamental components of financial literacy that should be learned:

- **Budgeting:** In budgeting there are four main uses of money that determine our budget spending investing saving and giving away. Creating the right balance throughout the primary uses of money allows individual to better allocate their income resulting in financial security and prosperity. Budget should be composed in a way that pays off all existing debt while leaving money aside for saving and making beneficial investments.
- **Investing:** To become financially literate and individual must learn about the key components in regards to investing. Some of the component that should be learned to ensure favourable investment are interest

rates, price levels, diversification, risk mitigation and indexes. Learning about crucial investment components allows individual to make smarter financial decision that may result in an increased inflow of income.

- **Borrowings:** In most cases almost every individual is required to borrow money at one point in their life. To ensure borrowing is done effectively and understanding of interest rates, compound interest, time value of money, payment periods and loan structure is crucial. If the criteria above understood sufficiently an individual's financial literacy even increase which will provide finance practical borrowing guidelines and reduce long term financial stress.
- **Taxation:** Gaining knowledge about the different forms of taxation and how they impact an individual net income's crucial for obtaining financial literacy. Whether it be employment, investment, rental, inheritance or unexpected, each source of income is tax differently Awareness of the different income and increased financial performance through income management.
- **Personal financial management:** The most important criteria personal financial management includes an entire mix of all the components data listed above. Financial securities ensured by balancing the mix of financial components above to solidify and increase investment and saving while reducing borrowing and debt. Achieving an in depth knowledge of financial component discussed above guarantees and increase in an individual's financial literacy.

### Importance of Financial Literacy

- 1) It helps people achieve financial stability and wellbeing
- 2) It can help people avoid unnecessary debt
- 3) It can help people feel more prepared for emergencies
- 4) It can help people feel less stressed about money

### How can financial literacy help people

- Financial literacy people may be more likely to manage their money with a budget.
- They may be more likely to save more money for future.
- They may be more likely to feel financially prepared for emergencies.
- They may be more likely to feel less stressed about money

### Benefits of being financially literate

- 1) Financial literacy help young adult avoid debt and make smart investment.
- 2) It can influence one's ability to achieve personal and professional and financial goals. Greater equipped to reach financial goals.
- 3) Participant in financial literacy program shows up to 30% improvement in financial behaviours.
- 4) Budgeting workshop have helped participants have up to 20% more monthly showing clear benefits.
- 5) Financial planning helps young adults avoid crisis, creating stable communities.
- 6) Financial literate individuals handle emergency better, easing public resource and boosting self-reliance.
- 7) Ability to make better financial decision.
- 8) Effective management of money and debt.
- 9) Reduction of expensive through better regulation.
- 10) Less financial stress and anxiety
- 11) Increase in ethical decision making when selecting insurance, loan, investment and using credit card
- 12) Effective creation of a structured budget

Making steps to become financially literate is an important component of life that can ensure financial solidity, reduce anxiety and stimulate the achievement of financial goals

### RBI Initiatives

The RBI has setup Financial Literacy Centres (FLCs) to help people become financial literate. These centre help people learn about banking concept and the central bank.

Financial literacy is the ability to understand how money works in our day-to-day functions, how someone manages it, how he/she invests and how a person offers it to others. More specifically it refers to the set of skills and knowledge that allow an individual to make informed and effective decision with all their financial resources.

Financial inclusion and financial literacy are twin pillars. While financial inclusion act from supply side providing the financial market slash service what people demand financial literacy stimulates the demand side

making people aware of what they can demand

### **Financial literacy and financial inclusion**

Demand side:

- Financial literacy and credit counselling center
  - Credit absorption capacity
  - Knowledge of product
  - Need for total product and services
- Supply side:
- Financial market bank and service
  - Appropriate design of product and service

### **Objectives of financial literacy**

As per RBI guidelines, the bank has set up financial literacy centre with the following objectives:

- 1) To facilitate financial inclusion through provision of two essential i.e. literacy and easy access.
- 2) To disseminate information regarding the central bank and general banking concept to various target group including schools and college student, women, rural and urban Poor, defence person and senior citizen for effective use of financial service by common man

### **Sources of financial literacy**

Beyond gaining knowledge through words of mouth, there is an assortment of tools and online modules that can increase an individual's financial literacy.

Following are some tools an individual can use to increase financial literacy

- 1) EconEd Link: Online financial lesson for K12 students.
- 2) Money smart: Free financial tools such as podcasts, lesson plans and games to increase financial literacy.
- 3) MoneyWise: in a partnership between Capital One and consumer action, moneywise provide free multilingual financial education.
- 4) InCharge: Dedicated to empowering consumer through personal financial management, InCharge provides online eBook for education purposes.

The option listed above provide beneficial financial knowledge that should be pursued if an individual wishes to grow their financial literacy.

### **Financial literacy Material**

Financial literacy creates demand for financial product and services, thereby accelerating the pace of financial inclusion added as its enable the common man to understand the needs and benefits of the product and services offered by us.

Toward this objective RBI issued revised guidelines on financial literacy centres(FLC) and comprehensive financial literacy guide containing guidance note for trainers, operational guidelines for conduct of financial literacy camp and financial literacy material and also a financial diary and a set of 16 posters these 16 poster, Operational guidelines and other financial literacy material have been given in vernacular language also.

### **Financial literacy 2024 in India**

RBI has been observing financial literacy week every year since 2016 to propagate financial education messages to public at large to empower them to engage in responsible financial behaviour and take informed financial decision.

Theme of financial literacy week: the theme of this year financial literacy week to be observed during Feb 26 to march 1 2024 is "Make a right start become financially smart" with emphasis on "Saving and power of compounding", "Banking essential for students" and "Digital and cyber hygiene" which aligns with overall strategic objective of the national strategy of financial education 2020 to 2025.

The theme of 2024 is targeted towards young adults, mainly students. The objective is to increase awareness of advantage of inculcating discipline from early age.

- On the occasion RBI Ahmedabad Regional Office(ARO) organised the inaugural function of FLW at RBI, ARO wherein Sri Ashok Parikh, General Manager Officer in charge inaugurated the financial literacy week released the message and unveiled the financial literacy posters carrying the theme of FLW2024 in the presence of RBI official, NABARD, SLBC, UTLBC AND senior bankers of the state.
- Banks have been advised to disseminate information and create awareness among the masses during the week on the above theme by displaying poster that have been developed by RBI on their website, ATMs,

mobile application and digital display boards deployed in their branches .

- Further as part of FLW campaign of 2024, RBI is pleased to announce a financial literacy ideathon, which is aimed at soliciting innovative ideas from post graduate student on creative strategies to propagate financial literacy among the youth so as to empower them to engage in responsible financial behaviour and take informed financial decisions.

Financial literacy in India is still low, but the Reserve Bank of India is taking steps to improve it.

- According to 2000 and 2023 RBI survey 62.6% of Indians are financially literate.
- A third of Indian are financially illiterate.
- The National Centre for financial education(NCFE) estimates that only 27% of Indian adults are financially literate.

#### **Financial literacy initiatives**

- RBI is taking steps to improve financial literacy in India.
- The is a nonprofit company that promotes financial literacy.
- The compulsory teaching of Financial Education Bill 2022 was introduced to main financial education mandatory for all citizens.

#### **Ways to improve financial literacy:**

- Attend financial education camps
- Exercise credit discipline
- Use UPI to go digital

#### **Reason of shortage of Financial literacy in India**

Financial literacy is not merely answering a few questions about interest rate, rates of return or inflation. It can be estimated based on financial knowledge, financial behaviour and financial attitude.

There is no shortage of experts in the world of financial literacy. They furiously make online videos, organise social media events and live investment workshops and publish content.

Despite all that effort, the number of people putting their life saving into the financial asset is too small compared to the money that finds its way into property and gold.

Considering India's population, less than 4% choose mutual funds or equity linked assets. Among major global economies India has the lowest household exposure to equities at 4.7% (the number is three fourths more for Europe and four times for the US).

Analyst turn the low penetration of financial assets in Indian households as an opportunity. They believe in "financialization of saving" could lead to steady money flow into equity market. Primarily urban population has a relatively high tendency to save and invest across financial assets, a vast population has yet to transition from tangible assets.

Financial literacy is not merely answering a few questions about interest rate of return or inflation. If a person only own bank deposit accounts they have an elementary range of financial literacy if they have bank deposit and credit card or debit card financial literacy is considered at a moderate level. The study considers that the financial literacy is at advanced level if they have deposit account credit or debit card and E wallets. Most individual process and elementary level of financial literacy at 42.8% while 20.8% are moderately literate. Financial education needs a massive overhaul there is a need for an integrated approach towards financial literacy from stakeholders. Presently the Government, Reserve Bank of India, Securities and Exchange Board of India, Insurance regulatory and development authority and Industry bodies all conduct their financial literacy programmes.

They target their product categories and propagate information public events are held to raise financial awareness across the country every day. There is very little measurability for success of financial literacy initiatives. Financial literacy is an everyday skill besides knowledge you must have the risk appetite to execute a financial decision more importantly you must make an informed decision. The government need to think hard about an integrated approach towards financial literacy financial literacy need to be saved from fragmented approach taken.

#### **Financial literacy rates in India**

As of June 2023, the financial literacy rate in India was 62.6% based on knowledge behaviour and attitude. Financial literacy varies across the country and is lower than in developed countries. The financial literacy rate is lower in Indian adult than in other developed nation including USA, UK Singapore.

- Surveys revealed only 27% of Indian population is financially literate.

- Only 16.7% of Indian students have a basic understanding of financial and money management.
  - Predictions state that India will continue to be fastest growing economy for next decade.
  - The country's citizen might never be able to make most of this vast economic opportunity that lies ahead of them.
  - The National Education Policy 2020 also highlighted the importance of easy financial literacy and advocated for inclusion of financial literacy at all education levels
- India's literacy rate in 2024 is predicted to be between 80% and 85.95%. This is based on a number of factors including improved infrastructure, increased awareness and better education policies. Financial literacy helps to learn, grow and acquire financial skills for adulthood. According to recent reports, the financial literacy rate in India for 2024 is estimated to be 27% of the population, indicating a significant gap in financial knowledge among most Indians. (Data can be formed to organisations like the National Centre for Financial Education).

#### **Key point about financial literacy in India**

**Low rate:** Only about 27% of Indian population considered financially literate, meaning they have a good understanding of basic financial concepts like budgeting, saving and investing.

**Source:** This data is often sourced from studies conducted by SEBI and other financial institutions.

**Need for improvement:** The low financial literacy rates highlight the importance of initiatives to educate people about managing their finances effectively.

#### **Rank of India In Financial Literacy**

India ranks 23<sup>rd</sup> in financial literacy among 28 countries, says Visa. India is the third largest growing economy of the world apart from being one of the highly preferred investment destinations.

- Indians are under-invested when it comes to saving for emergencies and according to a global survey, over 70% of Indian respondents can barely manage personal economic emergencies for three months. When it comes to financial literacy among Indians, results are quite dismal. A survey revealed that more than 70% of Indian respondents cannot manage their personal economic emergence for more than three months. Of course, poor financial planning is the key reason.

#### **Recommendations**

The financial education offered by India remains inadequate and practitioners perceive financial literacy levels as unacceptably low, particularly in poor communities. The major challenge of every financial education program is to reach more people more often throughout their lives with relevant content and through appropriate delivery mechanisms. This requires:

1. Improved outreach, particularly to disenfranchised communities and vulnerable segments of communities: the poor and unemployed, rural communities, pensioners and others. This requires better and more efficient targeting, which should be part of a national strategy.
2. Exposure over a lifetime, which is needed to reinforce previous learning, but also because the financial landscape is always changing along with people's financial needs.
3. Relevant content that takes cognisance of the target audience's previous learning and attitudes, their environment and their financial needs.
4. An appropriate context, without which programmes tend to fail. There must be a form of motivation and the target audience must perceive the context as relevant.
5. An appropriate delivery mechanism such as classroom-based programmes which lend themselves to more in-depth training, or multimedia which has a broader reach and can be more entertaining.
6. A national strategy that clearly spells out the overall objectives of financial literacy, and is explicit about the responsibility of the government, the private sector and the non-profit sector.
7. Develop global guidelines and standards for financial literacy initiatives and consumer protection frameworks in financial markets and help out stakeholders in implementing those rules and standards.
8. Extend baseline surveys of financial capability to developing countries to produce analogous data on current levels, to monitor progress toward goals, and to provide an orientation point for impact evaluations.

#### **Conclusion**

Financial literacy is not a skill that is acquired through once-off learning. Rather, it is the function of continuous, repetitive learning over a lifetime. The final aim is not to create financial experts; it is more important to equip individuals with sufficient knowledge to make sense of financial activities, seek out appropriate information, and be able to understand and interpret the information that they subsequently acquire. In India, studies conducted by Ajay Tankha, Development Consultant of Sa-dhan, a self-help group in regard to

financial literacy has indicated that nearly 96% of the population across the country felt that they would not survive for more than one year if there is a loss of income. More than half of the population of the country prefers banks to keep their surplus. More than one third prefer to keep their surplus at home and only 5% keep their surplus at post office schemes. Higher income earners save up to 44% of their income whereas the bottom 20% borrows up to 33%. To meet ends, 40% of rural households borrow from local money lenders to meet important expenditures. These data clearly points out that Indian household do have the habit of making savings out of the household income but most of their current income is insufficient to meet their needs. In this context the role of Self help groups in the field of spreading financial literacy is also worth to discuss (Tankha 2011). Access to finance by the poor sections of the society living in the country depends on the degree of financial literacy available for them. For reduction of poverty and social; cohesion, such groups should be financially educated and brought to the mainstream financial climates.

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