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FINANCIAL LITERACY IN THE INDIAN CONTEXT : A review of National Strategy for Financial Education 2020-25

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ABSTRACT:

Indian Government along with various financial sector regulators is working hard to strengthen financial inclusion in the country. This goal of financial inclusion is supported by financial literacy since it gives customers the power to make decisions that will improve their financial security. The theme of this study is to bring out the concept and need for Financial Literacy in India. Going through the study, one will be able to understand the existing level of financial literacy among the people of the country as it is a review of NSFE (National Strategy for Financial Education 2020-25) and NCFE (National Council for Financial Education's) Financial Inclusion Survey 2019 that describes how Government and various stakeholders such as RBI, SIDBI, SEBI, PFRDA, etc. are taking initiatives to educate people financially through various programs, seminars, workshops, and schemes.

Keywords: *Financial Literacy, Financial Education, Financial Status, National Strategy for Financial Education*

INTRODUCTION:

Finance is always considered a key pillar for the building of growth. For a nation to develop fully, it must have financially sound and educated citizens. To reduce poverty and boost the prosperity of nations, Financial Inclusion is the key requirement. As per The World Bank, Financial Inclusion is the access of individuals and businesses, to all the financial products and services which are useful and affordable for them and can meet their needs related to transactions, savings, payments, credit, and insurance, delivered responsibly and sustainably. However, to achieve financial inclusion, financial literacy is the key enabler.

The term Financial Literacy has a wide range of definitions as defined by various researchers. For some, it is the knowledge of principles of management of personal finance possessed by

someone (Garman and forgue, 2000). For others, it is the knowledge and awareness of financial instruments and their practical application in business and personal life (Huston, 2010). Remund 2010 defined a person as literate if he/ she is capable enough to manage his finance, can develop his skills in further decision-making related to finance, and assess its impact on themselves and others.

In general, it comprises two terms: 'Financial' means related to money and 'Literacy' means knowledge or awareness. Based on that, we can conclude it is knowledge and awareness in the context of monetary matters. It refers to one's capacity to apply one's existing financial knowledge to handle financial matters. It is the knowledge, skills, attitude, and behavior of a person toward money management.

As per Organization for Economic Cooperation and Development (OECD), Financial literacy is "A combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being."

LITERATURE REVIEW:

Much research so far has been done that triggers the need for Financial Literacy throughout the world. Klapper et al. (2015) in a worldwide financial literacy survey found that only 1 out of 3 adults possess a basic understanding of financial concepts measured in the terms of risk diversification, inflation, numeracy, and compound interest. India ranked lowest with 24% in the terms of financial literacy amongst all other major emerging economies of BRICS (i.e Brazil, Russia, China, and South Africa). They further emphasized the need for financial literacy training for vulnerable groups of society as they show a low level of literacy.

Volpe et al. (2002), in one of their surveys on 530 online investors, conducted to analyze their investment literacy, outlined the fact of lack of financial knowledge among online investors. He emphasizes the need for educating investors to make an efficient capital market contribution. Bhushan (May 2014) in a study found that a lack of financial knowledge compels individuals to invest their money in low-risk bearing instruments instead of financial products providing higher returns. Roy and Jain (May 2018) conducted a study on the level of financial literacy among Indian women. As per their findings of the study awareness level among women regarding finance was not so satisfactory.

Agarwalla et al. (2015) in one of their studies conducted on working youngsters in urban India to evaluate their level of financial literacy have highlighted the inferiority of financial knowledge and financial attitude among the current generation. According to their study, working young men and women need to be educated in all dimensions of finance through financial literacy programs. Mishra (2018) in his study conducted on households also found that higher risk tolerance, financial literacy, and investing awareness strongly affect a person's decision to invest in a stock. His findings also support the value of financial literacy programs in enhancing their awareness level

related to financial matters, which has a substantial impact on the decisions they make while investing in the stock market.

Azeez and Banu (2021) conducted a study to analyze the literacy gap between the rural and urban populations of Kerala and Uttar Pradesh by developing a Financial Literacy Index consisting of Financial knowledge, Financial Behaviour, and Financial Attitude in it. In their findings, they highlighted the financial literacy divide between them as the rural area population was less literate than those living in urban areas and ask for enduring actions from all the stakeholders to impart basic financial knowledge to bridge this gap. Kalyani and Sivaraman (2016) conducted a study on 736 young adults in Kerala to measure their financial literacy level. As per their findings, 83% of their respondents need financial literacy programs that can impart financial knowledge to them.

Financial literacy positively affects financial inclusion, as well as saving behavior as people with higher financial literacy, are more likely to hold savings in formal as well informal manner (Morgan and Long, 2020). The information above makes it obvious that financial literacy is a key idea for achieving financial inclusion and requires a higher level of attention. Therefore, it is vital to periodically assess its state to develop successful tactics to spread awareness regarding various initiatives taken by authorities to promote it in the country as it is evident from previously conducted studies that financial literacy and financial initiatives have positive direction as well as indirect impact on the sustainable growth of nation (Pandey and et al. 2022). This study seeks to determine the need for and current state of financial literacy in India, as well as the steps that the government has taken to encourage it there.

OBJECTIVES:

The objective of the study is to highlight the following concepts related to financial literacy in the Indian context:

- To identify the need for financial literacy in India
- To evaluate the status of financial literacy in India as per NCFE's survey 2019 and NSFE 2020-25
- To enlist the initiatives undertaken by Government and some financial sector regulators to promote financial literacy in India

RESEARCH METHODOLOGY:

This study is descriptive in nature and is conducted to outline the concepts of financial literacy, its need and status in India along with various initiatives undertaken by different authorities to promote it in the country. To fulfill the need of the study, secondary data is collected through online mode from various reports published by different organizations, journals, and newspapers. To check the literacy level of people data has been gathered by reviewing the National Strategy for Financial Education 2020-25 prepared by NCFE (National Center for Financial Education) in

consultation with the four Financial Sector Regulators (namely RBI, SEBI, IRDAI, and PFRDA) and other relevant stakeholders.

NEED FOR FINANCIAL LITERACY:

Financial growth is key to fostering the economic development of a country. It is required to uplift the standard of living of people as well as for efficient handling of money earned by them. As per World Bank's report, a notable rise in financial inclusion on a global scale has been observed depicting 71% of people in developing countries having bank accounts, compared to 42% a decade ago. About 40% of those who paid something digitally from their account (to a business or for a utility provider) did so for the first time since the pandemic began (Global Findex Database 2021).

To achieve the goal of Financial Inclusion in India and achieve the milestone of "sustainable development goal" of "Quality Education" to all, it is imperative to ensure that the entire population of the country is financially literate. They must be able to make the best possible use of their financial wealth through informed choices and effective decision-making. But unfortunately, only 27 percent population of the country is financially literate as per a survey report of SEBI (Bhattacharyya, A. July 11, 2022). Over 75% of Indian individuals, according to an S&P survey, do not comprehend fundamental financial concepts to a sufficient degree. When it comes to women, the disparity is worse and stands at 80% (Jain and Mehta, 2022, May 25).

STATUS OF FINANCIAL LITERACY IN INDIA:

As per an all-India survey done on financial inclusion and financial literacy in 2019 by NCFE taking 75000 respondents aged between 18 to 80, the level of financial literacy in India is as follows:

- Only 27.19 percent of the total respondent were found to be financially literate among which the ratio of male literates overcome the female ones i.e 29 percent and 21 percent respectively (National Strategy for Financial Education: 2020-2025).
- Out of the total respondents, 31 percent are self-employed persons from the agriculture sector, 13 percent are agriculture laborers, 31 percent are self-employed non-agricultural, 26 percent are students, 37 percent are salaried private employees, and 45 percent are salaried Govt. Employees, 16 percent of homemakers, 36 percent of retired persons, and 17 percent of others possess the minimum level of financial literacy.
- Only 24 percent of the rural and 33 percent of the urban population were found to be financially literate.
- Talking about the qualification level of the population the level of financial literacy is as below:

Category (Education Wise)	Percentage
Uneducated	13
Primary	16
Middle (Upper Primary)	19

Secondary (High School)	25
Graduate	40

Source: National Strategy for Financial Education: 2020-2025

- According to the age group, the literacy level is as follows:

Population with age group	Percentage
18-29	30
30-49	27
50-69	25
70-80	23

Source: National Strategy for Financial Education: 2020-2025

INITIATIVES TO PROMOTE FINANCIAL LITERACY:

Indian Economy shows continuous growth for the past few years. Even during the pandemic period when the economies of various developed nations were found to be negative, India's economy remains successful to show a positive GDP ratio. It becomes possible due to various efforts done by the Indian Govt. and various financial institutions such as NCFE which is a not-for-profit company promoted by RBI, SEBI, IRDAI, and PFRDA, working to promote financial education across the country through seminars, campaigns, training programs, and workshops, etc covering the entire population of the country including homemakers, students, employees, etc. Following are some of the financial education programs developed and implemented by them to achieve their mission of financially empowered India:

Initiatives by RBI:

RBI is also actively working to enhance Financial Literacy by generating content to improve basic financial education, covering various important topics such as savings, borrowings, interest, risk and time value of money, etc. Apart from this various Public Awareness Campaigns are run by RBI through various social media platforms such as Twitter, YouTube, and the Official Website of RBI to educate the public regarding their rights and Responsibilities related to banking matters. To spread awareness on certain key topics, "Financial Literacy Week" is observed each year. For the year 2022, Financial literacy week was observed from 14 - 18 Feb. 2022 on the theme "Go Digital, Go Secure" focusing on spreading awareness regarding the convenience and security of digital transactions along with consumer protection (Reserve Bank of India's Financial Education Initiative).

Initiatives by SEBI:

The Securities and Exchange Board of India (SEBI) is also undertaking various programs to impart basic financial knowledge to different target groups of society including non-working women, students, retired employees, and those having a middle income. Moreover, some sectors

specific financial educational programs like Investor awareness programs, Regional Seminars, and commodity awareness programs are also on the go to educate the public. SEBI's Official website <http://investor.sebi.gov.in>, toll-free number, Mass media campaigns, and SEBI Complaint Redressal System is also an effective initiative for investors' welfare.

Initiatives by IRDAI:

The Insurance Regulatory and Development Authority of India (IRDAI) is also educating people regarding their rights and duties through various audio and visual modes of communication. Seminars, awareness campaigns, quizzes, a metro rail campaign, a handbook on insurance, and a Pan India campaign, etc. are some important initiatives taken by IRDAI in the process of educating people.

Initiatives by NCFE:

NCFE is running financial education programs like Money Smart School Program (MSSP) for schools, Financial Education Training Programme (FETP) for school teachers, FACT (for undergraduate and postgraduate students), and FEPA (financial education program for adults).

Initiatives by PFRDA:

Pension Fund Regulatory and Development Authority of India is also assisting the public in their financial matter relating to their retirement planning through a website named "Pension Sanchay". Information relating to fundamentals of Finance, Banking, and Investment is disseminated on this website through blogs written by finance professionals.

Initiatives by NABARD:

NABARD is creating awareness among the rural public. Opening of bank accounts, use of credit cards, use of ATMs, and digital payment means are the key areas targeted by it. NABARD is also conducting staff training programs for commercial banks, Regional Rural Banks, Rural Cooperative Banks, etc. for effective dissemination of financial literacy.

Initiatives by NCPI:

In active cooperation with Public and Private sector banks, the National Payments Corporation of India (NCPI) is working to create awareness and literacy about the use of RuPay, AePS, IMPS, etc. It educates people regarding digital payment and fraud through posters, ATM screens, SMS and E-mails, etc. The event of "World Literacy Day" celebrated on September 8, 2015, has created a record of conducting 120 e-payment literacy programs concurrently throughout the country, of which 23930 were the total number of attendees.

Initiatives by SIDBI:

SIDBI has launched a virtual assistant for assisting entrepreneurs on its portal named "Udyami Mitra". It aims to spread financial knowledge as well as Entrepreneurship culture in the country.

CONCLUSION:

To conclude, Financial Literacy is crucial for an individual's overall financial growth and can be attained through making informed choices, and can further result in the development of a nation. Therefore, it is imperative to educate people and assist them in their financial decision-making. In India, the level of literacy in financial matters is still not satisfactory and quite low i.e 27 percent as per SEBI's report (Bhattacharyya, A. July 11, 2022). The literacy level of women, rural area population, individuals holding qualifications up to senior secondary level, and senior citizens is quite low. However Indian Government along with some financial sector regulators is working aggressively to promote literacy in the country through various programs, seminars, workshops, etc. Though India has emerged as a growing country, in the case of financial literacy there are miles to go ahead in the process of educating people. Only then the vision to create a financially aware and empowered India along with the mission to enable people to manage their finance in an efficient manner leading to their financial well-being can be achieved.

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