P: ISSN NO.: 2394-0344 RNI No.UPBIL/2016/67980 VOL-4* ISSUE-1* (Part-2) April- 2019
E: ISSN NO.: 2455-0817 Remarking An Analisation

Financial Literacy: Tool for Promoting Financial Inclusion

Abstract

The philosophy of next level reforms in the financial sector is committed to financial inclusion. Inclusive growth in economy can be achieved if a large section of the population participates in the financial markets. For this to happen, it is necessary for them to know, understand, and develop the ability and skills to evaluate, assess, transact in the financial markets. Financial literacy is one of the strategic initiatives to achieve inclusive growth. Financial literacy has assumed greater importance in recent years especially from 2002, as financial markets have become increasingly complex and the common man finds it very difficult to make informed decisions. Financial literacy is considered an important adjunct for promoting financial inclusion; financial development and ultimately financial stability .A large number of initiatives are being developed by countries to address this issue and are increasingly rolling out national strategies on financial education. This paper traces the concept of financial literacy and its role in promoting financial inclusion in India. This study also discuss about the various initiatives taken by regulators for improving financial literacy in India. The findings of this study reveals that financial literacy has been identified as key factor influencing the demand side of the financial inclusion. This study would help in adopting appropriate strategies to improve the level of financial literacy amongst individuals

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Introduction

Financial literacy has assumed greater importance in recent years especially from 2002, as financial markets have become increasingly complex and the common man finds it very difficult to make informed decisions. Since making financial decisions has become an increasingly complex task in the modern world, people need knowledge in various areas and a wide range of skills in order to make informed decisions about financial matters. They need to be aware of risks that accompany various financial choices. Improved financial literacy can increase economic participation and social inclusion, drive competition and market efficiency in the financial services sector, and potentially reduce regulatory intervention Financial literacy is also considered an important adjunct for promoting financial inclusion, financial development and ultimately financial stability..Financial literacy around the world is found to be low as measured by various studies including the OECD survey study carried out across 13 countries. In India, the levels of financial literacy are poor even by the low global standards, according to some studies such as the VISA International Financial Literacy Barometer 2012.[1] In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population, which still remains out of the formal financial set-up especially in the rural areas(Ramachandran,2011).

In India, spreading financial awareness would require the regulatory authorities, stock exchanges and financial institutions to come together to a single platform and make joint implementation efforts; however this is not being done. Financial literacy is one of the strategic initiatives to achieve inclusive growth. Financial inclusion is an international policy priority and demand-side initiatives including financial education have an important role to play in helping individuals to access and use appropriate, formal financial products. The importance of improved financial inclusion, consumer protection and financial education for financial stability and inclusive development is globally acknowledged. In this context, participation of masses in financial markets is important and significant for the economic growth. For facilitating this process, it is important to initiate a national movement of financial literacy with the participation of a large number of stakeholders in the financial markets. Government of India/Reserve Bank of India and other agencies are making concerted efforts to create awareness among the sectors concerned of the need to bring larger sections of the population into the banking fold.

After all, financial literacy, and education, plays a crucial role in financial inclusion, inclusive growth and sustainable prosperity as is also being increasingly recognised and acknowledged globally[2]. Financial Inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups. Financial literacy is defined as the ability to make informed judgments and make effective decisions regarding the use and management of money. Financial literacy skills enable individuals to navigate the financial world, make informed decisions about their money and minimize their chances of being misled on financial matters (Beal and Delpachitra, 2003; CBF, 2004b; Raven, 2005).

Review of Literature

Various studies have been conducted from time to time on Financial Literacy and Financial Inclusion across the globe and also in India.

Shankar (2013) argues that financial literacy and financial capability are regarded as important demand side factors that influence financial inclusion efforts. While financial literacy refers to the basic understanding of financial concepts, financial capability refers to the ability and motivation to plan financials, seek out information and advice and apply these to personal circumstances. The author cites the examples of microfinance institutions that maintain close relationship with the community and spread knowledge and literacy among the clients on the prudent usage of financial resources.

Thorat (2007) in her paper opined that one common measure of Financial Inclusion was the percentage of adult population having bank accounts. On the basis of available data, it was found that on an all India basis, 59 per cent of adult population in the country has bank account or in other words 41 per cent of the population is unbanked. In rural areas the coverage is 39 per cent against 60 per cent in urban areas. The extent of exclusion from credit markets is much more, as number of loan accounts constituted only 14 per cent of adult population.

Lusardi (2008) observes that low financial literacy affects financial behaviour, and literacy is to be carried out in mass scale to influence saving and wealth accumulation. Two avenues pointed out by the author in this regard are delivering financial literacy through schools and workplaces.

Bhushan (2014) has inferred that Indians with low level of financial literacy invest their money in traditional financial products instead of new age financial products with higher returns.

Huston (2010) opines that spreading financial literacy is a public policy objective and in U.S., recent incidents on financial sector vouch for the increasing attention given to the financial education. The mortgage crisis, consumer over indebtedness and household bankruptcy rates are the evidences to substantiate the statement.

Chakraborty (2012) analyses the barriers as (a) Low literacy levels, lack of awareness and understanding of financial products, (b) Irregular income, (c) frequent micro-transactions, (d) Lack of trust in formal banking institutions, (e) cultural obstacles (e.g., gender and cultural values) as the demand side factors for financial exclusion.

Objective of The Study

1. To understand the importance of financial literacy in promoting financial inclusion in India.
2. To identify the various initiatives taken by regulators for improving financial literacy in India.
3. To examine the necessity of financial literacy to promote the financial inclusion in country.

Research Methodology

This paper provides a brief overview of the field of financial literacy, financial inclusion and explores some of the challenges and potential solutions for moving the field forward. In India financial literacy has assumed greater significance in recent years due to the complexity of financial markets. For the purpose of the study data has been collected various sources and mainly secondary data has examined for preparation of conclusions, findings and recommendations. The design of research study is exploratory. Data is collected from various sources such as magazines, journals, research papers; newspapers etc. different websites are also being studied to collect the required data

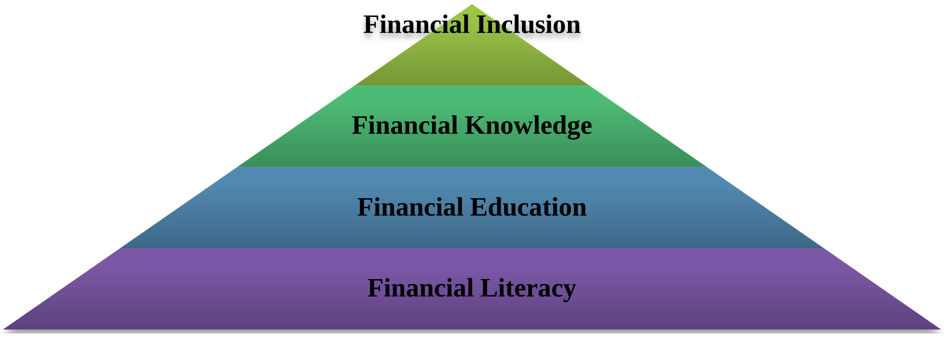
Financial Literacy as A Means To Financial Inclusion

Financial literacy is considered as an important adjunct for promoting financial inclusion and ultimately financial stability. According to Dr Subbarao, Reserve Bank Governor of India, “In the Reserve Bank, we treat financial inclusion and financial literacy as twin pillars. Financial literacy stimulates the demand side – making people aware of what they can and should demand. Financial inclusion acts from the supply side – providing in the financial market what people demand”. Raising financial literacy supports social inclusion and enhances the wellbeing of the community. Both developed and developing countries, therefore, are focusing on programmes for financial literacy / education. While the growth and coverage of formal financial services in rural India may seem remarkable, the vast majority of rural poor still does not have access to formal finance. This is because of lack of financial awareness[3]. In the context of 'financial inclusion', the scope of financial literacy is relatively broader and it acquires greater significance since it could be an important factor in the very access of such excluded groups to finance[4]. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Banks are expected to cover 50% of the financially excluded households by 2012 i.e.55.77 million and the remaining households are to be covered by 2015.

Financial education programmes should be designed to meet the needs and the financial literacy level of their target audience, as well as reflect how their target audience prefers to receive financial informatio. Financial education should be regarded as a life-time, on-going and continuous process, in particular in order to take account of the increased complexity of markets, varying needs at different life stages, and increasingly complex information[5]. India has one of the most extensive financial systems comprising of banks, microfinance institutions and self-help groups. There are more than 30,775 rural branches of commercial and regional rural banks. Rural cooperative institutions have a wider outreach, with 1, 08,779 primary agricultural co-operative societies (PACS). In addition, 2.24 million self-help groups (SHGs), with the credit linkages by banks are also operating in India.[6]

Financial Empowerment Pyramid

The below mentioned diagram illustrates about the interconnected concepts of Financial Literacy, Financial Education, Financial Knowledge and the critical issue of Financial Inclusion. We believe that once the process of financial literacy starts at the elementary level, this will lead to the second step of financial Portfolios of the Poor. Literacy, education and knowledge would empower the common man to be included in the financial system. Therefore, financial literacy is only the first step to this entire process and is the foundation for creating financial inclusion.



Why is Financial Literacy Important?

1. There is virtually no country whose economy has developed and matured without a corresponding deepening of the financial sector. And such deepening is possible only when individuals and households are financially literate and are able to make informed choices about how they save, borrow and invest. Indeed, it is possible to argue that the subprime problem would not have grown to the explosive proportions that it did if people had been financially more 'literate'.
2. Beyond the individual level - and this is equally important - greater financial literacy can aid a better allocation of resources and thereby raise the longer-term growth potential of the economy. India average growth of around nine percent in the period 2004-08 before the global financial crisis interrupted the growth trajectory. One of the key drivers of this growth has been the increased savings rate in the economy, which reached a high of 36 percent of GDP in 2007/08, the year before the crisis.
3. The increase in savings itself has been a consequence of the changing demographics and the welcome trend of rise in household savings. However, nearly half our population still lacks access to banking and other financial services. If we can redress that and provide this 'left behind' population access to the entire gamut of banking services, we could raise household and overall domestic savings even further, and that will fulfill one of the necessary conditions to achieve the double-digit growth that we aspire to.
4. To make that happen, we need to deepen the penetration and expand the coverage of financial services to all sections of society and to all regions of the country in a meaningful way, particularly to those at the bottom of the economic pyramid. Lack of financial awareness and literacy is one of the main reasons behind lack of access to financial products or failure to use them even when they are available. An NCAER and Max New York Life study shows that in India, around 60 percent of laborers surveyed indicated that they store cash at home, while borrowing from moneylenders at high interest rates - a pattern which increases their financial vulnerability.
5. Financial literacy and awareness are thus integral to ensuring financial inclusion. This is not just about imparting financial knowledge and information; it is also about changing behaviour.[7]

Efforts made so far in the field of Financial literacy in India

In India, various programmes have been designed and implemented by commercial banks with the objective of ensuring financial access to all the households in India. However, one reason or other, meaningful inclusion could not take place. An inclusive financial system should ensure access, availability and usage of financial services by all the concerned. The commercial banks have been involved with various strategies and programs to make the households rely on institutional agencies for their financial services requirements. The recent policy level prescription to launch Pradhan Mantri Jan Dhan Yojana (PMJDY) is praiseworthy in the context of financial inclusion. The PMJDY was announced by our Hon'ble Prime Minister in his independence day address on 15th Aug 2014. The scheme envisages universal access to financial services to each household in India. Towards this end, at least one basic banking account for every household would be opened and access to credit, insurance and pension would be made available. The account holder would be entitled to a Ru Pay Debit Card with in built accident insurance cover of one lakh rupees. The PMJDY comprises of six pillars. As on Dec 26, 2014, the number of accounts opened under PMJDY scheme stood at 10.08 crores, as against the target of 7.5crores by 26 January 2015, thanks to the efforts taken by commercial banks in a mission mode.

RBI's initiatives on Financial Education

The Reserve Bank of India is quite active in the field of financial literacy in India. Reserve Bank of India has undertaken a project titled "Project Financial Literacy". The objective of this project is to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college students, women, rural and urban poor, defense personnel and senior citizens.

Financial Literacy and Credit Counseling Centers (FLCCs)- Model Scheme

The broad objective of the FLCCs will be to provide free financial literacy/education and credit counseling[8]. It had been decided to support establishment of FLCCs by Lead Banks in 256 excluded districts and 10 disturbed districts under FIF. Further, it has been decided to support for Financial Literacy Centres (FLCs) in place of FLCCs as per new norms/guidelines issued by RBI on 06 June 2012. As on 30 September 2012, `1396.75 lakh sanctioned to Lead Banks to set up FLCCs/FLCs in 183 districts of 14 states viz. Arunachal Pradesh, Assam, Bihar, Gujarat, Haryana, Jharkhand, Maharashtra, Madhya Pradesh, Manipur, Meghalaya, Orissa, Rajasthan, Uttar Pradesh & West Bengal.

SEBI's Initiatives on Financial Education

SEBI has initiated a multipronged approach to spread financial literacy all over India. Investor Awareness Programs/ Workshops are organized for educating investors and to spread awareness. Regional Seminars are conducted in association with various exchanges, depositories and trade bodies. The objective of such seminars is to reach out to more people and concentrating primarily on tier 2 and tier 3 cities. SEBI continues its association with Investor Associations (IA) as well as Exchanges, Depositories and various trade bodies etc. It has launched a financial education drive through Resource Persons (RPs). The program aims at imparting understanding of financial concepts to the targeted groups. These empanelled RPs also supplement the investor education programs that are conducted through investor associations.[9]

NABARD-UNDP initiatives

NABARD-UNDP initiatives are focused on Financial Literacy; Innovative Processes; Knowledge Sharing and Capacity Building. Based on the interactions with the representatives of the key stakeholders in the Capitals of the Seven States this document presents the Vision, Mission, suggested FL Strategy and its components, summary of common observations, state specific observations, suggestions and key learning's for the perusal of UNDP, NABARD and the respective State.

IRDA'S Initiatives on Financial Education

Awareness programmes have been conducted on television and radio and simple messages about the rights and duties of policyholders, channels available for dispute redressal etc have been disseminated through television and radio as well as the print media through sustained campaigns in English, Hindi and 11 other Indian languages. A dedicated website for consumer education in insurance is on the verge of launch.

PFRDA Initiatives on Financial Education

The Pension Fund Regulatory and Development Authority, India's youngest regulator has been engaged in spreading social security messages to the public. PFRDA has developed FAQ on pension related topics on its web, and has been associated with various non government organizations in India in taking the pension services to the disadvantaged community. PFRDA's initiatives have become more broad-based with direct mass publicity on NPS – both as individual model through POPs and group models through Aggregators. PFRDA has issued advertisements in print media and electronic media through radio and television

MCA (IEPF)

The Ministry of Corporate Affairs is spreading financial and investor awareness through the Investor Education and Protection Fund. The focus of MCA is however more geared towards adult programs primarily comprising of investor awareness camps. www.iepf.gov.in

Stock Exchanges

NSE, BSE, MCX, and others also have programs on investor awareness and regularly release articles and propaganda related to financial literacy. These organizations are not really focused on financial literacy but on increasing the public participation in the stock markets. International The Gateway was established as part of OECD's Financial Education project. Serving as a global 'clearing house' on financial education, The Gateway provides access to a comprehensive range of information, data, resources, research and news on financial education issues and programs around the globe. The gateway covers 70+ countries, 120+ programs, 170+ weblinks and resources, 160+ articles, research and data.

1. Sanchayan is a NGO dedicated exclusively to spreading financial literacy and awareness among the youth and adults from low-income background. Sanchayan conducts free workshops for the underprivileged youth on topics ranging from the basics of banking, credit cards and PAN cards to the investing in shares and mutual funds, so that these youth can become financially aware and also a part of the mainstream banking and financial services industry

Findings

The unbanked and under banked population in the world is huge, to the extent of two to three billion. Rodrik and Rosenzweig (2009) explain the gaps in financial access across the globe. While only 58.7 per cent of households in India availing banking services. The demand side factors responsible for financial inclusion are lack of financial literacy, less financial capability, lack of regular income streams, psychological barriers, cultural barriers, lack of trust, etc. Financial literacy or education is the foremost one that determines the extent of financial inclusion. This is well visible in the Alliance for Financial Inclusion (AFI) global survey 2010 wherein financial education tops in the enabling factors for financial inclusion, the other factors being product range, technology enabled delivery channels, credit bureaus, client protection, institutional capacity building and a sound regulatory framework. The benefits of financial education/literacy range from enhancement of money management skills, effective and prudent management of debt, inculcating the habit of savings, sound financial behaviour, effective financial planning, less dependence on informal sources, etc. Financial literacy along with financial inclusion and consumer protection is advocated for financial stability. In India, various effort are made by financial sector regulators especially RBI and SEBI in designing and implementing financial education programme. Financial access, inclusion and literacy are very important aspects to be dealt in to arrive at a holistic view of financial inclusion. Access of financial services is to be ensured by policy makers, practitioners and civil society. Financial inclusion policies of government and banking institutions should include ensuring infrastructure to all the places so that access is ensured. Along with access, usage of financial services by the public is to be ensured and this can be accelerated through financial literacy efforts. One significant pillar of the Jan Dhan Yojana is financial literacy where public is to be educated on the benefits of opening and using bank accounts, the need for relying institutional finance, the significance of insurance as a risk management tool, and pension service as social security measure. JDY find many solutions to the problems of access, inclusion and literacy

Conclusion

As financial markets become increasingly sophisticated and as households assume more of the responsibility and risk for financial decisions, financial education is increasingly necessary for individuals, not only to ensure their own financial well-being but also to ensure the smooth functioning of financial markets and the economy. Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding it increasingly difficult to make informed choices. Improved financial literacy can benefit individuals and families by giving them more control over their money and helping them make better financial decisions. Financial Literacy education which is aimed at enhancing a person's level of knowledge or ability should be tailored to suit different demographics, life stages and learning styles and not to be treated as a one-size-fits-all approach. In a world of increased individual financial responsibility, where workers are in charge of their financial well-being and where financial markets offer new and complex financial products, financial literacy is essential. Financial education should go hand-in-hand with improving access to financial markets and services. Financial Literacy aids financial inclusion initiatives as it creates awareness about the benefits of linking with the formal financial system and hence, creates demand for financial products. Financial literacy supports consumer protection as it aids consumers better understand the features and risks inherent in financial products, thereby reducing the risk of mis-selling. It also generates awareness and willingness to approach the grievance redressal system available, in case of disputes connected with the financial products. This paper makes a new contribution to the existing literature through bringing to light the gravity of the incidence of financial exclusion and justifying the need for better financial education programmes. The findings of the study would enable the policy makers to focus added attention to financial literacy and education. At a time when the nation is implementing Prime Minister's Jan Dhan Yojana (PMJDY) to achieve meaningful financial inclusion, efforts are to be made to pursue financial education efforts so that the public at large understand the benefits of accessing and using financial services.

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