Financial Literacy An Important Tool For Promoting Financial Inclusion in India

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Abstract
The philosophy of next level reforms in the financial sector is dedicated to financial inclusion. Inclusive growth of the country can be achieved if a large section of the population participates in the financial markets. In order to achieve the objective of financial inclusion, it is necessary for individuals 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. It has assumed greater importance, as financial markets have become increasingly complex and the people finds it very difficult to make informed decisions. Financial literacy is an important tool for promoting financial inclusion; financial development and ultimately financial stability. A large number of initiatives is 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.

Key words: Financial literacy, Financial education, and Financial inclusion

1. INTRODUCTION-

Financial literacy has assumed greater importance, as financial markets have become more complex. In this complex financial world, financial decision has become difficult task for the individuals and they need more knowledge and a wide range of skills in order to make informed decisions in financial matters. They should be aware of risks that are involved various financial products. Better financial literacy can increase participation in economy, improve competition and market efficiency in the financial services sector, and also reduce the intervention of regulators. Financial literacy is an important tool for promoting financial inclusion, and ultimately financial stability. Around the world, financial literacy is found to be low as measured by OECD survey(2011) 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.

In India, financial literacy is important because of low level of financial literacy and the large population 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 enables individuals to access and use appropriate financial products. The importance of 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. Financial Inclusion is the process of providing financial services at affordable costs to vast sections of disadvantaged and low income groups. Mandell (2007) has defined financial literacy as "the ability to evaluate the new and complex financial instruments and make informed judgments in both the choice of instruments and extent of use that would be in their own best long-run interests"

2. REVIEW OF LITERATURE

Shankar (2013), in his paper, stated that financial literacy and financial capability are important demand side factors that influence efforts of financial inclusion. 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, 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) in his paper stated that Indians with low financial literacy level prefer to 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.

3. 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.

4.RESEARCH METHODOLOGY

For the purpose of the study, data was collected from various sources such as magazines, journals, research papers; newspapers etc.

5. FINANCIAL LITERACY AS A MEANS TO FINANCIAL INCLUSION

Financial literacy is considered as an important tool for promoting financial inclusion and ultimately financial stability. Financial literacy and financial inclusion is considered as twin pillars of financial stability. 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.

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. In order to improve the financial literacy, 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 information. 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[1].India has one of the most extensive financial systems comprising of banks, microfinance institutions and self-help groups.

Financial Empowerment Pyramid

The below mentioned diagram explains about the interconnected concepts of Financial Literacy, Financial Education, Financial Knowledge and the critical issue of Financial Inclusion. It is believed 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

Need of Financial Literacy

1. There is virtually no country whose economy has developed and matured without a corresponding deepening of the financial sector. It is possible only when people are financially literate and are able to make informed choices about how they save, borrow and invest.

2. Higher financial literacy can aid a better allocation of resources and thereby raise the longer-term growth potential of the economy.

3. In India, nearly half of the population still lacks access to banking and other financial services. If we can provide this unbanked 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, there is need to expand the coverage of financial services to all sections of society and to all regions of the country. Lack of financial literacy is one of the main reasons behind lack of access to financial products or failure to use them even when they are available.

5. Financial literacy is integral to ensure financial inclusion. It is not about just providing knowledge and information; but it is also about changing behaviour of the people.

6. EFFORTS MADE 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 6,2017 the number of deposits in accounts under PMJDY scheme stood at 69841.16 crore , thanks to the efforts taken by commercial banks in a mission mode.

1.**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" to provide 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.

2.**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.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.

3.**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.

4.**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.

5.**IRDA'S and PFRDA Initiatives on Financial Education-** Various awareness programmes have been conducted on television and radio and simple messages about the rights and duties of policyholders. It also conducts an annual seminar on protection and welfare of policy holders and also partially sponsors seminars on insurance by consumer bodies. The Pension Fund Regulatory and Development Authority is the India's youngest regulator and has been engaged in spreading awareness related to the pension related topics to the public.

6.**Stock Exchanges** – Various stock exchanges i.e., NSE, BSE etc. 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.

7.**NGO**-Sanchayan is a NGO dedicated to spreading financial literacy and awareness among the youth and adults from low-income background. It 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

7.Conclusion

Since financial markets become increasingly complex and people assume more responsibility and risk for financial decisions, financial literacy is highly important for individuals in order to ensure their own financial well-being and also the smooth functioning of financial markets and the economy. Financial literacy can benefit individuals and families by giving them more control over their money and helping them make better financial decisions. Financial literacy 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 helps consumers to better understand the features and risks involved in financial products. It also generates awareness and willingness to approach the grievance redressal system available, in case of disputes connected with the financial products. The findings of the study would enable the policy makers, regulators etc to focus more on 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 should be made to pursue financial education efforts at a large scale so that the public at large understand the benefits of accessing and using financial services.

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