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Financial Literacy among People in India: A Review of Literature

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Abstract

Financial literacy means understanding various concepts like financial planning, investment options, time value of money, compounding concept and positive return providing techniques. Financial literacy is the combination of knowledge, skills, attitudes and ultimately behaviors that translate into sound financial decisions and appropriate use of financial services. Lack of financial literacy may have a negative impact on the financial status of the individual. Financial literacy can create a meaningful difference in people's lives. Financial literacy helps the individuals to attain financial stability. It helps the person to improve his confidence and sentiments to take the better financial decisions. The present study is an attempt to study the level of financial literacy among people in India by using literature based analysis.

Keywords: Financial literacy, Financial decisions, Investment attitude

Introduction

Financial literacy is the skills and ability to channelize financial resources for decision-making. It relates to the understanding and knowledge of how money is made, spent and saved. It covers the areas of personal finance, money and investing. Financial literacy means understanding various concepts like financial planning, investment options, time value of money, compounding concept and positive return providing techniques. Lack of financial literacy may have a negative impact on the financial status of the individual. Financial literacy helps the individuals to attain financial stability. It is a broader term including literacy, sentiments, behaviors, systems and planning.

Financial literacy is mainly concerned with better retirement planning, gradual wealth accumulation and better decision-making. It is important to become financial literate from the initial stage of one's career. But people become financial illiterate due to some personal or professional hindrances. As a result, people have incompetent knowledge about financial dealings, unacceptable decisions etc.

Financial inclusion and consumer protection are the two concepts which can be achieved by financial literacy. It helps the persons to attain knowledge about the financial markets and financial instruments available in the market. Cyclical fluctuations of the markets can be handled more effectively and efficiently with this tool.

Defining financial literacy

The financial literacy as defined by the National Financial Educators Council (NFEC), "Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family and global community goals."

Jumpstart has defined financial literacy as," Personal finance describes the principles and methods that individuals use to acquire and manage income and assets. Financial literacy is the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security. Financial literacy is not an absolute state; it is a continuum of abilities that is subject to variables such as age, family, culture, and residence. Financial literacy refers to an evolving state of competency that enables each individual to respond effectively to ever-changing personal and economic circumstances."

The Centre for Financial Inclusion has defined Financial literacy as, "The combination of knowledge, skills, attitudes and ultimately behaviors that translate into sound financial decisions and appropriate use of financial services."

The Government Accounting Officer (GOA) has defined financial literacy as," The ability to make informed judgments and to take effective actions regarding the current and future use and management of money. It includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges associated with life events such as a job loss, saving for retirement, or paying for a child's education."

The President's Advisory Council of Financial Literacy, "The ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being."

Objectives of the study

The main objective of this study is to review and summarize financial literature studies and related issues. An attempt has been made through this research paper to study the level of financial literacy among the people in India by using literature based analysis.

Methodology

The present research study is qualitative in nature. It is a literature based study. The present study is a literature based systematic review, including the description of the findings of the collection of research studies. Data has been collected from secondary sources, comprises of research papers, research articles, websites, books, newspapers, reports and journals.

Literature based Review

Vibhuti Shivam Dubey (2018) concluded that financial literacy is related with socio demographic variables. Socio-economic variables includes characteristics such as age, gender, ethnicity, education level, income, type of client handling, years of experience, location, etc. Most of the research studies regarding financial literacy are concentrated in southern and western part of the country as compared to very few research studies covering the whole of India. Financial literacy is more significant to any economy as improved financial knowledge will lead to an improvised financial attitude and behavior.

Dr. J Gajendra Naidu (2017) concluded that improper financial decisions are a result of rapid growth of Indian economy and complex financial markets. Possessing financial skills, knowledge, attitude and awareness can help in achieving financial objectives. Financial literacy level in India is very low, especially among women and youngsters.

Priyanka Agarwal, Radhika Choudhary Kureel (2017) observed that if our youth will be educated about financial literacy, then this will be beneficial for our society, individual and whole community but very fewer people are aware about it. When our youth will gain the required skill then this will bring positive attention to the school as well as community. Promoting financial literacy can reap many benefits for the educational institution, which also include student recruitment and retention, building awareness among community members and the media and fundraising through grant and sponsorship opportunities. When financial literacy programmes will be included in the school curriculum then this will open new doors for youth as well. For the success of any financial literacy programmes there should be a motivated teacher, ample resources, relevant curriculum, and involvement of community.

Dr. S.C. Das (2016) observed that financial literacy is highest among accounting and finance students, being followed by HR and marketing personnel. He also stated in his study that maximum selected indicators of financial literacy were dependent on control variables except the few viz. income sources, attended course related to financial knowledge and mentoring. He concluded that majority 60% was aware about most of the financial concepts but only 30% were able to answer few cases like time value of money, share market, corporate taxation and regulatory framework.

Mousumi Singha Mahapatra (2017) observed that a person’s capability to manage financial matters has become important in today’s world. Availability of different types of sophisticated financial products coupled with the complexity and increased uncertainty of the economy and financial markets have generated a strong move to measure and study financial literacy among investors. Financial literacy of Indian college students is influenced by their socio-demographic characters, parental influence and their attitude towards financial planning. While both socio-demographic and parental influences have a positive impact on financial literacy, attitude towards financial planning is observed to have a negative impact.

Sekar.M, Gowri. M (2015) observed that early purchased through credit cards have changed the financial behavior of the current generation employees. All these factors have an impact on their financial position. Therefore need is there for proper financial literacy and information related to financial matters becomes inevitable. The result of the study suggests that the level of financial literacy varies significantly among respondents based on various demographic and socio-economic factors. It can be concluded that financial literacy is low among Gen Y employees in Coimbatore city and necessary measures should be taken by Government to increase awareness about finance related matters.

Agarwalla and Verma (2013) has observed that with the influence of several factors such as gender, education and income, as well as few factors specific to India such as joint-family and consultative decision making process are found to significantly influence financial literacy. Given the emphasis on

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education in India, it should be possible to enhance the financial literacy of youngsters relatively quickly through inclusion of relevant material on financial literacy in the general education program of schools and colleges. The study demonstrates the importance of contextual variables that may influence financial literacy.

Conclusion

Financial literacy can create a meaningful difference in people's lives. It helps the person to improve his confidence and sentiments to take the better financial decisions. Various studies interpret that the level of financial literacy among women and youngsters is very low. Financial literacy among the youngsters can be quickly enhanced through educational programmes at schools and college levels. Government, RBI and various other agencies are taking some plausible measures for improving the financial literacy among people of India. Some more improved flexible measures from Government agencies, Banks and from Private institutions are required for addressing the needs and rights of financial literacy of individuals at different stages across various parts of India.

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