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ANALYSIS OF LEVEL OF FINANCIAL LITERACY: A COMPARITIVE STUDY OF INDIA VS. OTHER DEVELOPED AND DEVELOPING NATIONS

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ABSTRACT

For the development of the economy of any nation, the financial system should be developed firstly, and for that the residents should be aware of the financial concepts, markets and services. The term Financial Literacy and Financial Inclusion has become a buzz word and the reason behind this is Pradhan Mnathri Jan Dhan Yojana and the quote given by honourable Prime Minister Shri Narendra Modi is “Sabka Sath, Sabka Vikas”. Financial Literacy is very low world-wide and in the country like India, it is much lower. This paper tries to explore the level of financial literacy in India. The report given by NISM, 2014 that has been retrieved from National Centre for Financial Education website and Report on Financial Literacy around the world : Insights from Standard and Poor’s Rating Services Global Financial Literacy Survey.has been analysed. It was found that the level of financial literacy in India is 24% which is very low in comparison to the other developed and developing nations across the globe. Further the suggestions are given to improve the level of financial literacy in India.

Keywords:- *Financial Literacy, Financial System, Financial Markets and Services.*

I. INTRODUCTION

Financial Literacy has secured a vital importance in the present scenario, as the present day financial markets and services are getting complex as well as there is an information asymmetry which leads to difficulty in making the decisions (Das, 2007).

The term Financial Literacy and Financial Inclusion has become a buzz word and the reason behind this are Pradhan Mnathri Jan Dhan Yojana and the quote given by honourable Prime Minister Shri Narendra Modi is “Sabka Sath, Sabka Vikas” (Diwedi et. al., 2015). Lusardi and Mitchell has defined Financial Literacy keeping in mind the four principles : Simplicity, Relevances, Brevity and Capacity to differentiate (Lusardi and Mitchell, 2011). Financial Literacy is pertinent so as to differentiate among the various products and services available in the financial system and beating the inflation and thereby earning the positive returns.

Financial Literacy can be defined as *a set of skills and knowledge that allows the individual to understand :- (a) the financial principles that an individual needs to know to make informed decisions and (b) the financial products that impact individual’s financial well-being (Jariwala, 2013).*

Organisation for Economic Co-operation and Development (OECD) has defined Financial literacy as *“the process by which financial consumers/investors improve their understanding about the financial products, concepts, risk and through information, instructions and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for the help, and to take other effective actions to improve their financial well-being”.*

Importance of Financial Literacy

The financial system of a country plays an important role in the growth and the development of the nation. India suffers from the low retail participation, primarily due to lack of financial literacy. The consumer needs to be financially literate to understand the financial concept to make the profitable decisions (Rekha, 2015). Moreover the development and marketing of the financial products and services has grown rapidly that needs equivalent growth in the financial education also (Marcolin and Abraham, 2006). Grohmann et.al., has argued that not only the supply of the sophisticated financial products is important for the financial development, but the demand of the financial products also plays the crucial role. Financial Illiteracy may act as an obstacle to the demand for the more sophisticated products and thus the channels through which the financial development leads to growth. Thus,



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Financial Literacy is useful to contribute to the financial development and thus the economic growth (*Grohmann et.al., 2014*).

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 (*RBI, 2008*).

II. REVIEW OF LITERATURE

World-wide 1 out of every 3 adults have an understanding of the financial knowledge. Also financial literacy is higher among wealthy and educated people (*Klapper et. al., 2015*). Financial literacy is very low across Germany, Netherland, Sweden, Japan, Italy New Zealand and United States irrespective of the level of the financial market development. There is also sex and age gap across nations of the financial literacy (*Lusardi and Mitchell 2011*). Most of the rural population is unaware of the financial products and services available in India (*Trivedi and Trivedi, 2014*). In a country like India, 73% of the farmers have no access to the formal credit and 45% of the Indian adults have never accessed financial services from the formal financial institutions (*Rekha, 2015*). Also large number of population does not have the access to the banking facilities in India. Financial literacy can help to bridge this gap (*Ambarkhane et. al, 2015*). Lower level of financial literacy is associated with the lower savings, as well as higher indebtedness. Thus financial literacy can be linked to social and economic development of the nation (*Dr. Singh, 2014*). Education play a vital role to build up the financial literacy in India. With the increase in the age and the level of education, the financial concepts become more clear. Also private employees are more financially literate than the government employees (*Kumar and Anees, 2013*). The financial literacy of the emerging middle class provides a double dividend : it increases the welfare of this group and also contributes to the financial development of the economy as a potential driver of the growth (*Grodman et. al., 2014*).

III. NEED AND SIGNIFICANCE

By reviewing the previous literature, it was found that the financial literacy is considered vital for the financial stability. Hence financial literacy helps in the growth of the financial system as a whole. Thus this paper is intended to study the level of financial literacy in India and also a comparison is drawn so as to know ranking of the financial literacy in India across globe.

IV. OBJECTIVES

1. To study the level of financial literacy in India.
2. To draw a comparison between financial literacy in India with other developed and developing nations.
3. To suggest the measures to improve the level of financial literacy in India

V. RESEARCH METHODOLOGY

The secondary data is being used in the study that is retrieved from various websites, journals, newspapers etc,. Also the reports published by National Centre for Financial Education, Reserve Bank of India, National Institute of Securities Markets (NISM), Standard and Poor's etc. have been referred to in the study.

VI. DISCUSSIONS

The data retrieved from the report of NISM (2014) had surveyed on the level of financial literacy in India. The parameters used to measure the financial literacy are- financial attitude, financial behaviour and financial knowledge.

Financial Literacy in India

Figure1- states that the financial Literacy has been measured by taking into account the financial attitude, financial behaviour and financial knowledge. Further theses have been divided as follows :-



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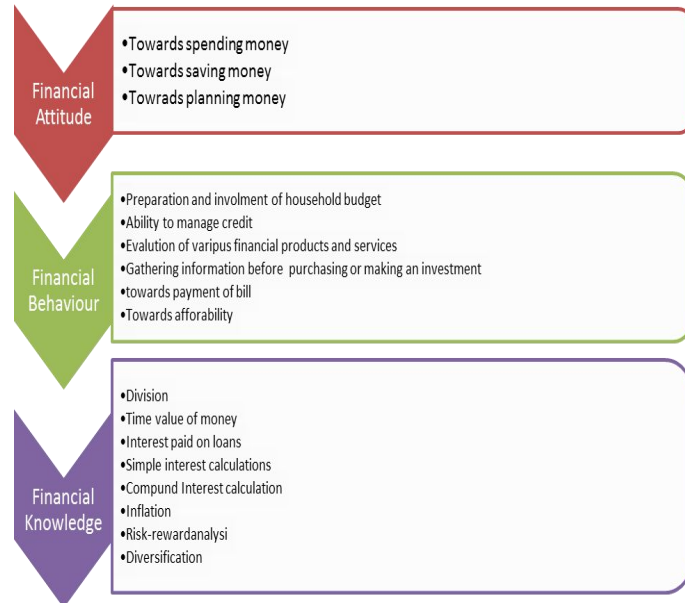


Fig. 1- Paramters for measuring financial literacy (Source : NISM Report, 2014)

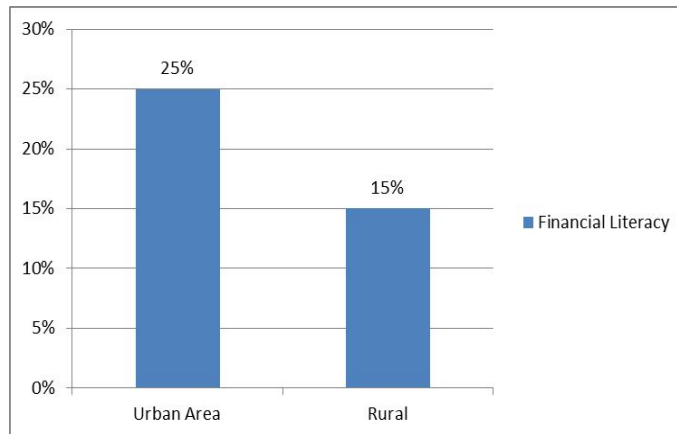


Fig. 2- Financial Literacy in India- Area Wise (Source : NISM Report, 2014)

Geographically 25% and 15% of the population of urban and rural regions of India are found to be financially literate. This is so because the awareness of the financial products and services are more in the urban area than the rural are in India. Although the percentage of financially literate are more in urban area yet this percentage is not attractive.



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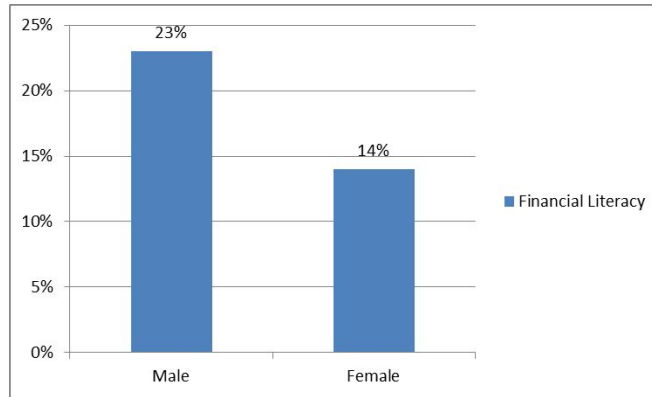


Fig. 3-Financial Literacy gender-wise in India.
(Source : NISM Report, 2014)

23% of the males are financially literate and whereas 16% women are financially literate. Women in terms of financial literacy are also lagging behind of men in India. The probable reason behind can be women are still less financially independent and they are more risk averse than the men.

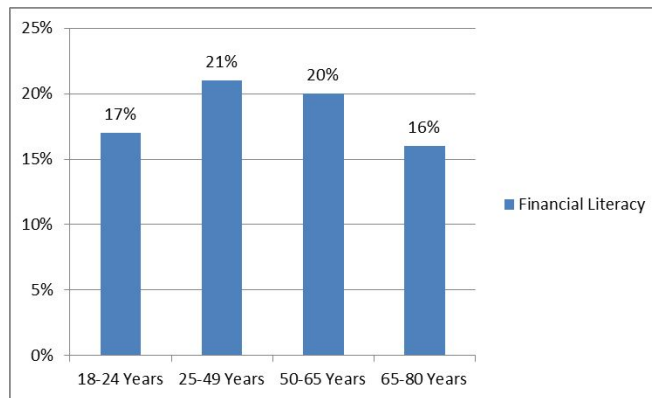


Fig. 4-Financial Literacy age-wise in India.
(Source : NISM Report, 2014)

Highest level of financial literacy was found among the age group of 25-49 years of the population. This is so because 25-49 years of the age group is considered as the working class population. As and when the person starts earning, the start planning for the future, and are interested in the various investments. Although the highest percentage of the financial literacy is 21 percent on the basis of age, yet this quite low when compared globally.



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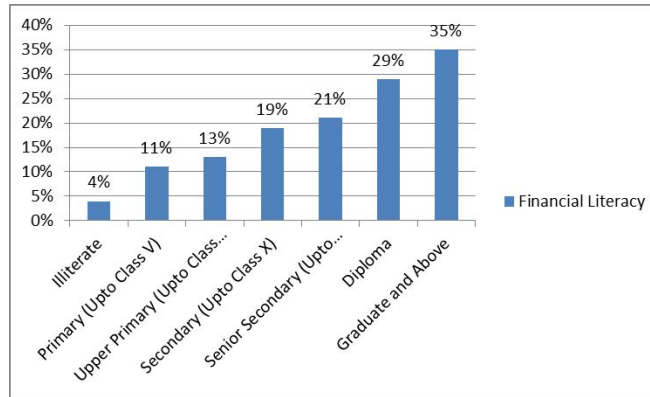


Fig. 5- Financial Literacy Education-wise in India.
(Source : NISM Report, 2014)

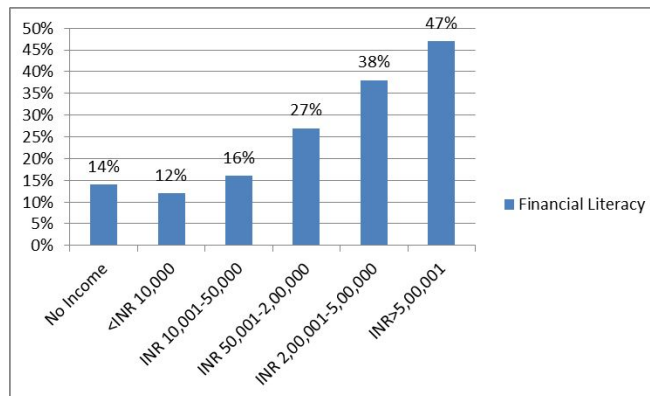


Fig. 6- Financial Literacy income-wise (Per Annum) in India.
(Source : NISM Report, 2014)

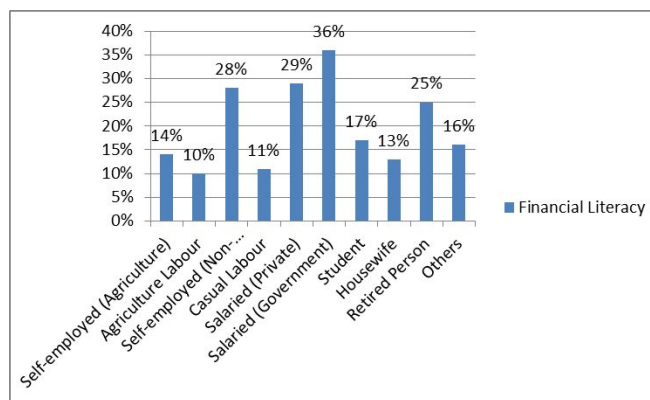


Fig. 7- Financial Literacy Occupation-wise in India.
(Source : NISM Report, 2014)



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With the increase in the level of the education and income, financial literacy also increases. Thus it can be observed that the level of financial literacy is directly proportionate to the level of education and the income. Also higher financial literacy was observed with the salaried class than other categories.

Merely 24 percent of the total population of India is financially literate found a global survey conducted by Standard & Poor's Financial Services LLC. The S&P's Ratings Services Global Financial Literacy Survey found that this number is lower than the worldwide average of financial literacy, but it is roughly in line with other BRICS (Brazil, Russia, India, China and South Africa) and South Asian nations. According to the survey, three-quarters of Asian adults and two-thirds of adults worldwide are not financially literate (S&P, 2015).

India stands 121th rank across the globe in terms of financial literacy with only 24% (*The Wall Street Journal*, 2015).

Financial Literacy across the Globe

Financial literacy stands highest in the European nations i.e. 52%. In Europe, Netherland, Sweden, Denmark and Germany has the highest level of literacy rate as well as the financial literacy. Cyrus and Romania stands on the lowest level of financial literacy in the Europe. In comparison the lowest financial literacy is found in the South Asia where only one-fourth of the population is financially literate. Among the BRICS (Brazil, Russia, India, China and South Africa) the level of financial literacy is as low as 28%. The literacy rate is lower in these countries due to the fact these are still developing economies as well as there still exists a lot of disparity and thus these nations are lagging behind.

Among the most developed nations- United Kingdom, United States, Germany, Japan and Canada, the percentage of financially literate population stands to be 55% (*Klapper et.al.*, 2015).

On the whole Norway, Denmark and Sweden stands among all the nations with the highest percentage of financial literacy i.e. 71%. United Kingdom and United Nation holds 6th and 14th rank with the 67% and 57% of the financial literacy (*The Wall Street Journal*, 2015).

Comparison of the level of Financial Literacy in India and Globe

India has quite a low rate of financial literacy among all the categories of people. Merely 24 percent of the total population can understand the financial concept. Comparatively the level of financial literacy among other nations is higher with Norway, Denmark and Sweden 71%. United Kingdom and United Nation with the 67% and 57% of the financial literacy. The probable reason behind this can be that India is still a developing nation and it has various disparities which is hinders the financial literacy growth.

VII. SUGGESTIONS AND CONCLUSION

The level of financial literacy remains low in India. India is still an emerging economy and for the growth of the financial system in the country, the efforts should be made to enhance the level of financial literacy as financial growth is directly linked with the financial literacy.

Financial Literacy can be improved by :-

- a) Imparting the basic as well as the advanced financial literacy concepts to the students, working class and others through seminars, workshops and the proper feedback should also be taken later on.
- b) Different age group of people have different financial needs and thus they should be addressed differently.
- c) Small activities on types and importance of the investment avenues should be undertaken at the various schools, colleges, offices and the local level.
- d) Management students can go and spread the financial knowledge in the rural as well as the urban area.
- e) People should be encouraged to watch and read the financial news.
- f) Special Programs on television and radio should be started to spread the financial literacy.
- g) Separate financial counseling and centres should also be started where people can come and get the best suggestions and advice when in dilemma.



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- h) Also various helplines can be started at the national as well as local level so as to take up the problems related to investments, securities and other matters related to financial concepts and usage.

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