A review of the financial literacy studies in India

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Abstract:

Financial literacy is a concept which has gained popularity in the Indian context. The need for focussing on the various dimensions of financial literacy is very significant, especially in the current scenario, since it is a time when financial literacy is subjected to a lot of conceptual changes. In this context, it is essential to review the existing studies available in the area of financial literacy to see how in India we are treating the concept and what are the major developments that have taken place in the financial literacy research. For this purpose, an extensive review of literature in the area of financial literacy was done and in order to frame a better idea and structure for the study, the published works on financial literacy from Ten Indian states during the time period 2014-2018 have been considered. The states considered for the review of papers at a later stage of this paper are: Rajsthan, Tamilnadu, Haryana, Punjab, Uttar Pradesh, Himachal Pradesh, West Bengal, Andhra, Maharshtra and Kerala. By analysing these studies, it is evident that many of the aspects of financial literacy covered under the study has a connection across the states and the results of the studies are also having some common characteristics thus reaching on to the conclusion that within the country the Financial Literacy studies are all following almost the same parameters and having the same influencing factors.

Introduction

The concept of financial literacy has been defined by many researchers in different ways. In a general way financial literacy can be explained as the understanding of personal financial matters. The need for focussing on the level of financial literacy of the citizens and identify the ways and means through which the same can be improved have been the point of discussion among the academicians and policy makers over a period of time. Even though in foreign countries, the concept of financial literacy is paving way for other advanced concepts and ideas, in India we still focus on the financial literacy concept and proceed further. The situation in many of the Indian states are quite difficult in terms of imparting the basic awareness about the financial management and personal financial growth. Researches related to financial literacy and its various dimensions have been happening in many states in India and this paper is an attempt to review the studies which are already conducted and identify whether there are any common characteristics resulted in these studies.

Ten Indian states have been chosen randomly with geographical representation of India. The papers address the financial literacy of different population such as farmers, rural households, women professionals, labourers etc.

**Review of Literature**

The concept of financial literacy has been reviewed and explained by many researchers from different dimensions. In the paper entitled ‘Current scenario of financial literacy in India’ (Kamboj, 2014) financial literacy has been mentioned as the knowledge and understanding of the financial concepts such as earning, spending, saving, budgeting, borrowing, investing and applying it with confidence for making effective decisions in the financial market to manage personal financial resources effectively. The paper explains about the international and national initiatives on financial literacy and suggest the strategies for improving the financial literacy levels in India. Even though the paper aims at exploring the current scenario of financial literacy in India, it does not provide much insights on the present level of literacy in different states in the country and the major reasons for the current scenario. The term financial capability is also addressed in the paper even though both financial literacy and financial capability has to be analysed as two different concepts. The concepts of financial education, financial stability and financial inclusion are also covered in the paper and the author brings in an interconnection between each of these concepts in the paper.

The Indian Scenario of financial literacy has been discussed by the researcher (Nash, 2012) who has analysed the various financial literacy initiatives undertaken at the banking, governmental and non governmental levels in India. The paper points out the need for such financial literacy initiatives since the existing literacy levels in the country are not that satisfactory and it ultimately affect the achievement of financial inclusion. The paper mentions about the ‘Project financial literacy’ introduced by the Reserve bank of India and also emphasize on the initiatives by RBI to promote the concept of financial literacy such as the various schemes and programs to connect the commercial banks and the rural population, the websites, exhibitions and scholarship schemes to promote the idea of financial literacy among the school children etc. Similarly, the initiatives by the NGOs Sanchayan, Citi India, CRY etc. are also discussed in the paper even though some of the initiatives are not directly focussing on financial literacy but rather points out to the concept of financial inclusion. The study concludes that Financial literacy in india is on the positive side and suggest the need for global guidelines and standards for financial literacy initiatives. But, the study does not evidence how the author has operationalized the concept of financial literacy and what are the major elements that need to be addressed under this concept. It can be considered as a general review of the concept of financial literacy in India to bring out the suggestions for a better approach to financial literacy taking into consideration the global standards as well.

The issue of gender differences in financial literacy has been addressed (Baluja, 2016) by conducting a study on the financial literacy among women in India. This study brings in a theoretical base for the argument for financial literacy among the women by connecting it to the factors such as longer life expectancy, self independence, freedom from exploitation and family financial wellbeing. The study basically deals with the factors influencing financial literacy among the women in India, financial literacy interventions by the Government of India and the measures for enhancing the financial literacy among the women. According to this paper the lack of several aspects such as independence, women centric financial schemes, information on existing financial services and requirements, basic education, financial resources etc. along with the culture of the community from which the women hails have an ultimate influence on women’s financial literacy. For improving the state of financial literacy the author suggest to impart adequate training to the women, financial awareness and education and also project the need for better technology, E-learning etc. Even though the suggestions provided in this paper are relevant, it does not address the actual requirements of the women belonging to the lower classes of the society and does not indicate how the suggested ideas can be implemented in the Indian context.

Narrowing down this aspect into working women in India (Arora, 2016), the financial knowledge, attitude and behaviour related to personal finance was studied in the state of Rajasthan which further revealed that the awareness about the financial planning tools and techniques among the women are poor and the single women outperform the married women in financial literacy scores. Here, financial literacy was taken as a combination of financial knowledge, financial attitude and financial behaviour of women and for measuring the same a structured questionnaire response was collected from 444 working women in Rajasthan. The findings also points out how the financial knowledge changes between the women from rural and urban areas and how this gap can be filled by imparting more training and educational facilities to the women hailing from rural background. The paper also makes an attempt to figure out the reasons for this low level of financial literacy among the women and the findings are more or less the same as previous studies’. The paper does not consider the other factors such as education of family, quality of education, self confidence of a woman etc. which has a direct influence on the women’s financial literacy levels.

A study was conducted among the Generation Y employees in Coimbatore city in Tamilnadu (M & M, 2015) covering 189 employees to measure their financial knowledge in the area of financial numeracy, savings and investments, borrowings, insurance, risk and return. The dimensions of financial attitude and behaviour was also covered in the study. The study points out that male working employees are more financially literate than female working employees and also the positive correlation between higher educational qualification and higher financial literacy levels were revealed. Similarly it is identified that, when the level of income is higher, financial literacy levels are also higher. According to this study, the nature of marital status influences the financial literacy levels of the respondents. It also has an effect on the number of dependents in the family. The levels of financial literacy are getting affected by the various socio demographic and economic factors as well. The study reveals that the overall financial literacy levels of the Generation Y employees in Coimbatore city are not much encouraging. Even though the study concludes by pointing out the lack of satisfactory financial literacy levels among the employees, it does not propose any possible strategies to overcome this situation.

The study conducted in the state of Haryana to explore the financial literacy level of women (Choudhary, 2017) using the structured questionnaire developed by OECD International network in Financial Education also considers the three important components of financial literacy-financial knowledge, financial behaviour and financial attitude. The study covers women sample size of 200 and reveals that the Financial literacy levels of the women in Haryana are quite satisfactory as compared against the global study results. But, more efforts are to be taken in order to bring the level higher to that of the global standards. The paper analyses the effect of demographic factors such as marital status, education, occupation and income on the financial literacy levels and identified that financial literacy is higher in the case of married as compared to unmarried and working women as compared to non working women. Similarly, respondents with higher educational qualification has higher financial literacy levels and the income is also having a positive correlation with financial literacy levels. Hence, it is evident from this analysis that the results of the study conducted in the State of Tamilnadu in 2015 (M & M, 2015) is matching with the results of the study conducted in Haryana. Even though it is commented in the paper that the financial literacy levels of women are quite satisfactory, still considering the fact that only more than forty percentage of the respondents are showing a high level of financial literacy, the author recommends the need for better initiatives to improve the financial knowledge, skills, attitude and behaviour of women. The paper does not cover the favourable situations that lead to the comparatively better financial literacy levels of the women in the state and does not mention about the initiatives that can be brought forward for improving the situation.

The study conducted among the rural areas of Himachal Pradesh (Gupta, Sunil, & Gupta, 2018) to measure the financial literacy and its impact on investment decisions also reveals the same results in terms of the association between financial literacy and demographic factors such as income, age, gender and marital status, qualification and occupation. The data collected from the 500 respondents from Shimla district further examines the connection between financial literacy and investment decision. The paper establishes the fact that the level of financial literacy has an impact on the respondent’s decision to invest in post office savings account, Mutual funds, Shares and insurance whereas the decision to invest in bank account does not get impacted by the financial literacy levels.

The financial literacy among the Tea Garden labourers in Darjeeling district was studied (Chettri & Mahapatra, 2018) in the state of West Bengal taking into consideration 200 labourers. This paper is an attempt to explore the concept of financial literacy through exploratory factor analysis. The paper addresses the journey from financial literacy to empowerment and protection covering the major aspects of financial education, Technology and Financial capability. The concept of financial literacy as per this study has been measured by combining five dimensions: financial knowledge, financial attitude, financial behaviour, financial skill and financial awareness. By conducting factor analysis the study identified several sub items that can come under the 7 factors- Skill in dealing with finance, investment behaviours, financial level of awareness, knowledge in dealing with financial institutions, financial planning and savings behaviour, knowledge of finance and financial attitude. The results of the study claims that knowledge, attitude, behaviour, skills and awareness changes according to the socio-economic profile and the financial literacy levels of the Darjeeling Tea garden labourers are very poor which can ultimately affect their future lives due to poor personal financial management. It is essential to conduct studies of this nature among the people from similar background such as, farmers, migrant workers, workers in unorganised sectors, socially excluded groups etc. in order to identify the level of financial literacy so that proper measures can be taken to protect them from exploitation. The paper suggest the need for the agents, financial advisor, enumerators, certified financial planners and business correspondents to act as the change agents to promote financial literacy.

Following this requirement, the further research on the studies related to financial literacy evidences that in the state of Punjab a study was conducted to know the financial literacy of farmers (Aggarwal, Gupta, & Singh, 2014).The responses were collected through questionnaire which deals with two parts- One is the basic financial knowledge which consist of the questions from interest calculation, time value of money, inflation effects etc. and advanced financial knowledge which focuses on stocks and bonds, stock markets, bond prices etc. The study results shows that the participating farmers were generally financially literate. The association between financial literacy and other demographic variables were subjected to study in this paper as well. The results of the study was different from the study results from Tamilnadu and Haryana. In Punjab the study results show that there is no association between financial literacy and the residential location, age, family size or marital status of farmers whereas educational qualification, income and the size of land holding have an association with the level of financial literacy. The paper also looks into the matter of financial inclusion and discusses how financial literacy can further lead to financial inclusion. However, the paper does not provide any clues as to what are the contributing factors for better financial literacy levels among the farmers in Punjab. The findings of the study, as per the authors claim can be used as a benchmark for financial training programs since it is a first study of its kind in Punjab.

The study conducted to analyse the financial literacy in the state of Uttar Pradesh and to compare the same with the central zone states in India (Dube & Asthana, 2017) provides an overview of the various constituents of the concept of financial literacy. The central zone states that are included in this study are Madhya Pradesh, Chattisgarh and Uttarakhand. The components of financial literacy has been considered as financial knowledge, financial attitude and behaviour. The results of this study shows that the financial literacy level of the state of Uttar Pradesh is just the half of the financial literacy level in India. Also, out of the 4 central zone states Uttar Pradesh stands third in terms of financial literacy ranking. The financial attitude, behaviour and knowledge ranking of the state is also very poor among the four central zone states. Hence, the paper suggest the government and non governmental agencies to impart the required training and assistance to improve the situation in Uttar Pradesh.

In the state of Andhra, efforts have been made to explore the financial literacy among rural households in coastal districts (Kumar, 2016) in relation to different socio economic indicators. The results are supporting the evidences from the other states such as financial literacy has an association with the age, income, educational qualification, marital status, gender etc. of the households. The paper suggest the need for conducting financial literacy programs and the role of Financial Literacy and Credit Counselling Centres (FLCC) in spreading awareness about the various financial aspects. The active participation of Financial Literacy Centres are quite essential for promoting the financial management practices among the population. In the state of Karnataka, a study was conducted to examine the status of FLCs (Sangeetha, Mathew, & Francline, 2017) among the thirty districts over a period of 9 years considering the variables such as Deposits, Credit Deposit ratio, FLCs and Number of reporting offices. It was found that there is an impact of FLCs on CD ratio even though the growth in CD ratio is not in alignment with the growth in FLCs. The major factors leading to this could be the way in which FLCs are operating in the state and how they promote the banking and financial habits among the people.

The study conducted in Kerala among the professional women in Cochin region (Sebastian & Raju, 2016) indicate that having a basic financial knowledge is not sufficient and the professional women lack the literacy in terms of money management and investment. The study also reveal that the urban women do make decisions on their personal investments and money management along with various family financial decisions even though the existing literature for the study evidenced women’s limited role in the decision making of the family. The investment opportunities available to the women are not accessed by them, even though they have steady income and good educational background. A similar study which was conducted among the working women in Pune region, Maharashtra aims at looking into the women’s financial literacy and assess the knowledge of females towards investment in various financial instruments (Chijwani & Vidyapeeth, 2014). The results reveals that even though the women in the study possess certain kind of financial knowledge, they cannot be qualified as financially literate. The study further reveals that the urban women are having the financial freedom to take decisions not only with respect to their personal investments but also for the family as a whole. This finding support the results of the study from Kerala.

Conclusion

The review of the literature points out the various dimensions from which the concept of financial literacy has been studied in the Indian context. Majority of the studies considered for this analysis consider the socio demographic factors and its impact on financial literacy. Studies have shown that in general age, marital status, occupation, education, income etc. are having a close association with the level of financial literacy in different parts of India. Also, most of the studies are focusing on the dimensions financial knowledge, financial attitude and financial behaviour for measuring the level of financial literacy. The studies found out the need for improving the level of financial literacy in the country especially when it takes into consideration the gender aspect. Also, the studies are suggesting the need for government authorities and banking entities to focus more on financial literacy promotion and the ways in which the training and other awareness programs can be conducted.

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