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Role of Financial Literacy in Achieving Financial Inclusion- Review of Literature

Ms. Gagandeep Kaur

Assistant Professor, University Institute of Legal Studies Chandigarh University, Mohali Punjab

ABSTRACT

The fast development of the Indian economy over the last decade and the expansion of financial markets as a result of liberalisation, privatisation, and globalisation have resulted in an oversupply of banking, investment, and credit products. A low degree of financial literacy inhibits people from making sound financial decisions. Individuals must spend their resources in the appropriate investment options in order to accomplish their goals. Using a literature-based approach, the purpose of this research is to examine the degree of financial literacy in India. Secondary data collected from numerous websites, publications, and research papers. It has been determined that the level of financial literacy in India is quite poor and requires effort to improve.

KEYWORDS: Financial Literacy, Financial Knowledge, Financial Behavior, and Financial Attitude, Literature Review, Demographic Factors, Socioeconomic Factors, and Wellbeing.

INTRODUCTION

The development of financial markets as a result of liberalisation, privatisation, and globalisation has led to an oversupply of banking, investing, and credit products in India. Due to a lack of financial literacy, people are unable to make prudent financial decisions. To achieve one's goals, one must spend one's funds in the most advantageous opportunities.

India utilises 2.4% of the world's territory with a 17.5% population proportion. A nation's financial system plays a crucial role in its economic growth. Since independence, Indian authorities have endeavoured to eliminate poverty, transform India into a thriving, self-reliant global economy, and integrate financial literacy requirements into the lives of every person. India has always been a nation of avid savers (K N Narendra-2015). Due to a lack of financial literacy, Indians suffer from financial illnesses such as inadequate insurance, debt traps, inadequate retirement funds, and poor investment returns.

According to the Organization for Economic Co-operation and Development (OECD), "financial literacy is the awareness, knowledge, skill, attitude, and behaviour required to make prudent financial choices and ultimately attain individual well-being."

In 2011, based on OECD suggestions, India established a top-tier institutional framework under the auspices of the Financial Stability and Development Council (FSDC). The Group of Financial Inclusion and Financial Literacy, led by the Deputy Governor of the Reserve Bank of India (RBI), and the National Centre for Financial Education (NCFE) have been established in order to improve the financial capability of 500 million individuals.

OBJECTIVES OF THE STUDY

Using a literature-based approach, the primary purpose of this research is to examine the financial literacy level in India.

METHODOLOGY

This is a qualitative and literature-based investigation. Data obtained from secondary sources, including journal papers, websites, newspaper stories, and reports.

PRINCIPAL FINDINGS

According to the current research, demographic and socioeconomic characteristics such as age, gender, education, income, marital status, etc. impact financial literacy.

APPLICATION

This article may be used by government, financial institutions, policymakers, and researchers in connected fields.

FINANCIAL LITERACY AND FINANCIAL INCLUSION

Financial knowledge and financial inclusion are essential to a nation's development. There are a variety of financial goods and services accessible on the market. Financial inclusion is only accomplished when these goods and services are extensively used by the population. Financial literacy is required for financial inclusion. A person's ability to manage bank accounts and make informed investments in financial goods depends on his level of financial literacy. Numerous investigations on the topic of financial inclusion have been carried out, including the following:

- In their 2017 research, Mani Goswami and Karan Dhawan accounted for a wide range of demographic variables—including students' genders, ages, majors, parental occupations, incomes, and educational backgrounds—in order to gauge college students' financial literacy. An investigation was carried out on one hundred young adults aged 18 to 30 years old who were enrolled in higher education programmes at a variety of private and public institutions in Delhi and the National Capital Region. The hypothesis is examined by means of an ANOVA test. There is no correlation between an individual's age, degree of education, or yearly family income and their financial behaviour. The parental employment and source of money influence a child's financial behaviour.
- In 2015, Sejar.M and Gowri.M conducted a study among Indians under the age of 35. The target audience consisted of Generation Y workers in Coimbatore. The primary purpose of the research is to determine the financial literacy level, the financial knowledge, the financial objectives and challenges, and the link between socioeconomic and demographic characteristics. A questionnaire was provided to 200 workers, of which 189 were properly completed and collected for the research. To test the hypothesis, the ANOVA method was used. The survey questions were focused on the respondent's financial knowledge, attitude, and behaviour. Female workers are less literate compared to male employees. The amount of financial literacy does not vary much with age, but it does vary with education. Financial literacy is influenced positively by workers' income. Compared to their married counterparts, unmarried workers have a lower degree of financial knowledge. The financial literacy level of Gen Y workers in Coimbatore is poor, and the government and other regulatory agencies should take steps to enhance it.
- Gajendra Naidu (2017) conducted a literature review to determine people's degree of financial literacy. Secondary sources such as journals, websites, articles, books, and papers were mined for information. Kamal Gupta - More education and other financial options must be developed. Lavanya Rekha Bahadur argues that in order to enhance financial literacy, financial education should begin in elementary school. According to Sumit Agarwal, males have a higher average education level than females and are more likely to be risk takers in the investment world. Ratna Achuta Paluri: A third of respondents don't like financial products. People were most interested in insurance and fixed deposits. Puneet Bhushan – The general level of financial literacy is poor, and women are less literate than men. Harsha V. Hariwala - Financial knowledge has no effect on investing decisions. Priyanka Agarwal – The majority of working women are familiar with the available investment plans and choose to invest in bank savings accounts and post office schemes. According to a survey conducted by Visa, financial literacy is particularly low among Indian youth and women. To reach the financial goals, one must acquire fundamental awareness, attitude, financial abilities, knowledge, and a strong track record of proven behaviour.
- Subodh Kumar and Amit Kumar Gandhi (2017) analysed the financial literacy of members of financial literacy and counselling centres and the effectiveness with which they make financial choices. In addition, it emphasises their desire for financial management-related knowledge. The members of financial literacy and credit counselling centres are being surveyed to acquire primary data. Members were chosen from the district of Dehradun in Uttarakhand. About 100 people were chosen at random. Chi-square test has been applied. 43% of respondents are very confident in managing their own money, 50% are somewhat confident, 6% are not confident, and 1% are not at all confident in handling their own finances. Both male and female families are competent in financial management. The capacity of married families to handle their own finances is greater than that of unmarried single households. The respondents' educational attainment does improve their capacity to manage funds; nonetheless, the salaried class has a greater capacity to manage finances than the other occupational sectors. There is no correlation between respondents' ability to handle their own finances and their gender, age, marital status, level of education, or profession. About 29% have a high level of interest in learning financial management-related knowledge, 45% have a moderate level of interest, and 1% have no interest. There is no correlation between age, marital status, educational attainment, employment, and yearly income and interest in acquiring financial management-related information.
- Anjana Bedi (2015) made an effort to analyse the steps the government has taken in the past to advance financial inclusion. In India, there are several economic, social, and cultural problems that make financial inclusion difficult. The main causes are illiteracy and a lack of funding options. The secondary sources used to gather the data. It was discovered that despite the RBI's best efforts and the introduction of numerous programmes, the intended level of inclusion was not achieved. The Pradhan Mantri Jan Dhan With the introduction of Yojana, the goal is to give each person access to at least one bank account.
- Financial literacy, according to Anshika, Dr. Anju Singla (2017), is a prerequisite for the growth and improvement of an economy's financial system. Financial literacy plays a critical role as financial services and products increase and the market system evolves. In comparison to other nations, India's financial literacy level in 2015 was quite low (just 24 percent). The degree of financial literacy affects a country's ability to prosper economically. Growth rates are higher when literacy levels are high and lower when literacy levels are low. In this essay, the author

sought to determine the current state of financial literacy in India, examined the steps the Indian government had made to raise it, and offered a number of strategies for doing so. Kerala, India, has the highest rate of literacy in the country at 100%, placing it first overall, but it ranks second in financial literacy, after Goa (50%), Manipur (36%), and Gujarat (33%), which is still considered to be quite low. Others have less than 20%. For school-age children, executives in the public and private sectors, members of various income levels, stay-at-home mothers, elderly and retired people, self-help groups, etc., SEBI has begun offering financial literacy programs. The RBI has launched the Project Financial Literacy to provide various carefully chosen groups and organizations with information about fundamental banking principles. On national radio and television, IRDA has organized financial literacy programs. The National Stock Exchange, broking houses, and mutual funds have all run a number of seminars and campaigns.

- According to Anubha Bendre and Veermati Singh (2017), financial inclusion and literacy are like twin foundations for the nation's economic prosperity. For behaviour to change, for financial markets to be heavily penetrated, for knowledge and skill to advance, for escape from a vicious cycle, and for entrepreneurship to flourish, financial literacy is necessary. Financial literacy and credit counselling centres have been built to inform individuals about the presence of various types of deposit, credit, and repayment options offered by banks. The Financial Stability and Development Council, which is chaired by the Union Finance Minister, was founded to improve financial inclusion in India. Financial literacy is mostly hindered by gender, age, income, education, location, and employment. The Indian government has opened a number of bank branches in rural and less urban areas as part of its efforts to increase financial inclusion. Kerala has accomplished complete financial inclusion. To improve financial literacy, the Reserve Bank of India has been instrumental. A large number of investors from both the state and federal governments, financial innovators and individuals, citizens, educators, and other parties are contributing significantly to the growth of financial literacy. To raise financial literacy awareness across the nation, however, there is still more work to be done.

- According to research by Lavanya Rekha Bahadur (2015), the economy is supported by two pillars: financial inclusion and literacy. These two foundations need to be solid for any nation to experience healthy economic growth. The core components of the Indian financial system include banking, capital markets, and insurance. In India, the majority of the unbanked people in the nation are out of reach for banks. Even though the Indian government is making efforts to improve banking services in both urban and rural areas, the majority of Indians are still unable to take use of these services. Additionally, the capital markets failed to reach the average person. The average person has little faith in the stock market. They consider life insurance and bank fixed deposits to be the two finest investing options. They have no sense whatsoever when it comes to investing in stocks and mutual funds. In India, more than 90% of the population lacks insurance protection. In the current study, several groups of people in Mumbai and the Thane district were evaluated for their financial literacy levels. A total of 202 individuals from various sectors were chosen for the study. Only 69.5% of people were discovered to have bank accounts, and only 29% of people knew how much interest they were earning. Most people don't have insurance and aren't familiar with the range of products that different businesses provide. The author advised that students in high school and college who are unfamiliar with the banking industry and mutual funds should be introduced to a financial literacy program.

- According to Abdul Haque and Mehwish Zulfiqar (2016), financial literacy is crucial for using our finances in a responsible manner. People who are financially literate are more socially and economically powerful. This study was undertaken with the intention of examining and identifying the significance of financial attitude, literacy, and behavior with regard to working women's economic empowerment. The study's participants will be Pakistani working women who are not directly connected to financial institutions. The selection of the sample is done using a non-probability technique. The sample size was around 300 responses. Through interviews and a questionnaire, data was gathered. Empowerment in the economy has a favourable effect on one's financial outlook, financial knowledge, and financial well-being. Women in the education field are well educated on financial matters. Financial knowledge and women's empowerment go hand in hand. Pakistani society views working women as being financially literate and having strong decision-making abilities.

- An analysis of financial literacy and household saving among Indonesian fishermen was conducted by Hidajat, T. (2015) in a paper titled "An Analysis of Financial Literacy and Household Saving Among Fishermen." This study focused on individual financial literacy as well as the connection between these two factors. The findings imply a positive relationship between household saving and financial literacy. The majority of fishermen lack literacy skills and a savings account. The report also recommended that several financial education programmes be implemented by policy makers to raise the financial literacy of fishermen by expanding the geographic reach of banks and credit availability.

- Amutha Rani S. (2017) used primary and secondary data to examine the socioeconomic background of rural women and the disparity in financial literacy among them. For the study, a sample of 360 respondents was used, and the statistical procedures used included percentage and gap analysis. In any research, socioeconomic considerations play a significant influence. Of the population, 30.6% have only completed elementary school, 39% earn between 10,000 and 15,000 rupees per month, 36.7% have savings equal to 10% to 20% of their family's income, and 40.6% choose to invest in gold. The many services offered by banks, such as loans, savings plans, online banking, ATMs, etc., are unknown to rural women. Rural women should be properly informed about and trained on the many programmes launched by banks and other financial institutions, as well as how to use ATMs to withdraw cash, create new bank accounts, manage their accounts online, and withdraw cash from banks.

- Suresh P. and Sivakumar T. (2017) shown how discrimination against women occurs in India. Although women make up half of the population, they still lag behind men in every field in India. Empowering women is essential for economic success in every nation. Women's education is crucial to the advancement of the entire family, society, and nation. Women will be empowered when they have a proper education, poverty is eradicated, they have access to health and safety services, and there is equality in the workplace and at home.

- Manju and Anjali Hooda (2017) conducted research on the state of women's empowerment in India. In India, women have historically held a lower status than men. Women in India lack nutrition, have less education, live in poverty, don't care about their health and safety, and aren't treated equally in the workplace. However, as a result of globalisation and liberalisation, women's status has transformed. But in some places, women still lack power. It's necessary to alter attitudes regarding women. There are numerous public and private initiatives aimed at empowering women. However, women are less aware of these programmes. To those programmes, proper training and promotions must be offered. To decrease illiteracy and poverty, action must be taken. Development in the social and economic spheres can lead to women's empowerment.

RESEARCH GAP AND FUTURE RESEARCH OPPORTUNITIES

The gaps offer possible prospects for further study in the following fields:

The majority of academics in India and other nations mostly use data from college or university students. The other segments of the population, such as primary and secondary schools, employees in the public and private sectors, corporate and non-corporate sector employees, small and medium-sized businesses, and businesspeople and non-businesspeople, are not given much attention. As a result, study on these samples is required to determine the true state of financial literacy. The general well-being of the populace and the health of the national economy are strongly influenced by financial literacy. The majority of studies concentrate on basic and advanced financial topics like numeracy skills, interest rates, inflation rates, percentage calculations, and risk diversification, but none concentrate on more advanced financial topics like unit trusts, bonds, risk-return issues, market volatility, and tax calculation. Future research on these more complex financial elements is thus necessary.

CONCLUSION

This study has evaluated the literature on financial literacy, financial inclusion, financial literacy in India and among youth and women in India, determinants of financial literacy, savings behavior, current and future investing patterns, investment-related decisions, and the role of financial inclusion and education in women empowerment.

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