



Impact of Financial Literacy in India

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ABSTRACT

In India, financial literacy is a growing concern. Despite recent efforts by the government and financial institutions to promote financial literacy, many individuals still lack the necessary knowledge to make informed financial decisions. According to a survey conducted by the National Institute of Securities Markets (NISM), only 24% of Indians are financially literate. The study also found that financial literacy rates are lower in rural areas and among women.

Low levels of financial literacy in India can have significant implications for individual and societal well-being. It can lead to poor financial decision-making, such as taking on high-interest loans or investing in fraudulent schemes. This can have long-term consequences, such as falling into debt or losing savings.

To improve financial literacy in India, there needs to be a comprehensive approach that includes education and outreach programs. The government and financial institutions can work together to provide financial education to individuals through schools, community centers, and online resources. This can include teaching basic financial concepts, such as budgeting and saving, as well as more complex topics, such as investing and retirement planning.

Financial literacy is a growing concern in India, with only 24% of Indians being considered financially literate according to a study by the National Institute of Securities Markets (NISM). This lack of financial literacy is especially prevalent in rural areas and among women. This poses significant risks for individuals and society as a whole, as poor financial decisions can lead to long-term consequences such as debt and loss of savings. To improve financial literacy in India, a comprehensive approach is needed. This can include education and outreach programs provided by the government and financial institutions. Financial education should cover basic concepts such as budgeting and saving, as well as more advanced topics such as investing and retirement planning. It is essential to provide access to financial services and products, which can empower individuals to take control of their financial well-being. Improving financial literacy in India can lead to better financial outcomes and increased economic stability, benefiting individuals and society as a whole.

Introduction

Financial literacy is a complex issue in India, and there are multiple ways to measure it. Some studies have used surveys to assess people's understanding of financial concepts, while others have examined financial behaviors, such as saving and investment decisions. Regardless of the method used, the data consistently shows that financial literacy levels in India are relatively low, particularly among women, rural populations, and low-income groups.

One of the biggest challenges to financial literacy in India is the lack of access to financial services and products. Many people in the country are unbanked or underbanked, and they may not have access to basic financial tools such as savings accounts, credit, or insurance. This can make it difficult for people to learn about financial concepts or to make informed decisions about their finances. In addition, the financial sector in India is highly regulated, which can make it difficult for new entrants, particularly fintech companies, to offer innovative and accessible financial products.

Despite these challenges, the Indian government has taken several steps to promote financial literacy and inclusion. For example, it has launched several financial education programs, including the National Strategy for Financial Education and the Financial Literacy and Credit Counseling Scheme. The government has also established institutions such as the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI) to regulate the financial sector and protect consumers.

Another positive development in India's financial landscape has been the surge in equity market investors in recent years. This has been driven in part by the availability of low-cost online trading platforms, which have made it easier for people to invest in the stock market. However, it is important to note that investing in the stock market carries risks, and it is crucial for investors to have a basic understanding of financial concepts and to make informed decisions.

Overall, the potential of fintech services to contribute to financial literacy in India is significant, but there are still gaps that need to be addressed. For example, many people in India may not have access to the internet or smartphones, which could limit their ability to use digital financial products. There is also a need for more research to understand the impact of financial education initiatives and to identify effective strategies for promoting financial literacy in India. By addressing these challenges and continuing to invest in financial education and inclusion, India can unlock the full potential of its economy and improve the financial well-being of its citizens.

Measuring financial literacy: the Big Three

In India, financial literacy is a growing concern, as many individuals lack the necessary knowledge to make informed financial decisions. To assess financial literacy, it is crucial to measure the level of understanding of fundamental financial concepts. These concepts apply to every context and economic environment, and include numeracy as it relates to interest rate calculations and interest compounding, understanding of inflation, and understanding of risk diversification.

In India, efforts to measure financial literacy have been limited. However, the National Institute of Securities Markets (NISM) has developed a financial literacy assessment tool that covers these fundamental concepts. The tool is available in multiple languages and is used to evaluate financial literacy levels among individuals in India.

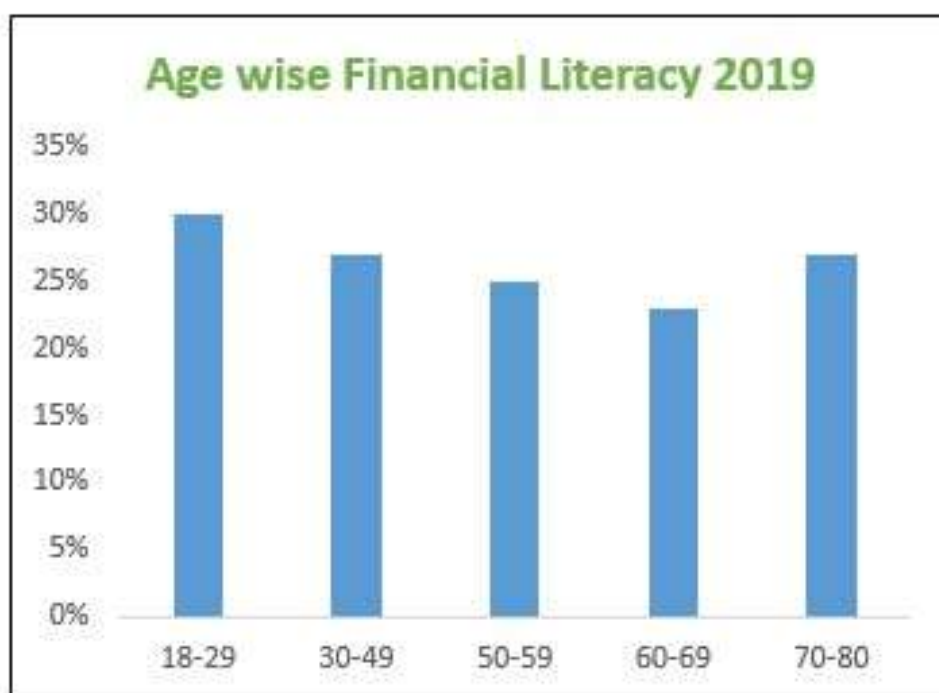
By measuring financial literacy in India, we can better understand the level of understanding of these fundamental concepts and the gap between what individuals know and what they need to know. This can inform the development of financial education programs that target the areas where individuals need the most help. By improving financial literacy in India, we can ensure that individuals have the necessary knowledge and skills to make informed financial decisions, leading to better financial outcomes and improved economic stability.

There are a few fundamental concepts at the basis of most financial decision-making. These concepts are universal, applying to every context and economic environment. Three such concepts are (1) numeracy as it relates to the capacity to do interest rate calculations and understand interest compounding; (2) understanding of inflation; and (3) understanding of risk diversification.

Current Status of Financial Literacy in India:

The current status of financial literacy in India is characterized by low levels of financial literacy, particularly among women and rural populations. According to the RBI survey on financial literacy in India (2019), only 18% of women were financially literate, compared to 30% of men. Financial literacy was also low among rural populations, with only 18% of rural respondents reporting financial literacy, compared to 30% of urban respondents.

The low levels of financial literacy in India can be attributed to several factors, including the lack of financial education in schools and colleges, the complex and opaque nature of financial products and services, and the lack of access to financial services, particularly in rural areas. Additionally, cultural and social norms may prevent women from accessing financial services and participating in financial decision-making.



Source: National Centre for Financial Education report, 2015 & Financial Literacy and Inclusion in India Survey Report, 2019

India's financial literacy rate among its young and adult population has been growing due to various factors including the recent advancement in technology and media coverage. The government of India and various regulators are constantly working towards growth by implementing financial literacy courses, workshops and schemes. From mobile banking to online payments and insurance; the country has a huge number of online financial services users. This helped improve India's financial literacy as the awareness and ease of insurance and banking increased. Number of transactions with

respect to digital payments in India grew 5x from 1,004 crores (10.04 billion) in 2016-17 to 5,554 crores (55.54 billion) in 2020-21. Furthermore, the value of fintech transactions is expected to rise at a CAGR of 20% to US\$ 138 billion in 2023 from US\$ 66 billion in 2019.

Importance of Financial Literacy in India

Financial literacy is one of the biggest assets of any country as it is directly proportional to the economic growth. The significance of financial literacy in India are as follow:

- **Development of rural areas:** Reaching out to rural sections and working on their development can be achieved through financial literacy. This can be achieved by making people more aware about the available resources and right way of utilizing them.
- **Ease in borrowing:** Based on an RBI study, 42.9% of population borrowed money from informal sources and pay higher interests. A strong financial education can help small traders make informed decisions and make the best use of available resources.
- **Ease in doing business transactions:** The launch of Pradhan Mantri Jan Dhan Yojana has led to an addition of 280 million new bank accounts. These accounts have led to an ease in doing business and has also promoted cashless transactions to a great extent.
- **Growth of MSMEs:** MSMEs contribute to 29% of India's GDP with 50% of the exports coming from this sector. Financial literacy can help small businesses grow and even bring new businesses to the market.

Government initiative towards financial literacy

Strengthening financial inclusion in India has been an important agenda of the government and the various regulatory bodies such as: RBI, SEBI, IRDAI, PFRDA. Efforts have also been taken to spread awareness and increase financial literacy among small businesses. Listed below are few such initiatives taken by respective regulatory authority:

- **Reserve Bank of India (RBI)**

RBI being the money market and the banking regulator has launched basic financial education as well as sector focused financial education. These include, financial literacy guides, diaries and posters covering the tenets of financial wellbeing such as savings, concepts of interest, time value, inflation etc. To aid businesses, ATM's, payment systems, Ponzi schemes, financial awareness messages etc. are some of the other contents covered.

- **Securities and Exchange Board of India (SEBI)**

SEBI also focuses on enhancing basic financial education and sector wise financial education. Being the Indian capital and securities market regulator, it also arranges events such as the World Investor Week and mass media campaigns. It also has a dedicated investor website.

- **Insurance Regulatory and Development Authority of India (IRDAI)**

Like the other regulators, IRDAI also works on content development by creating brochures, handbooks etc. It has also created mandatory board approved policy for insurers and arranges various seminars and quiz programs.

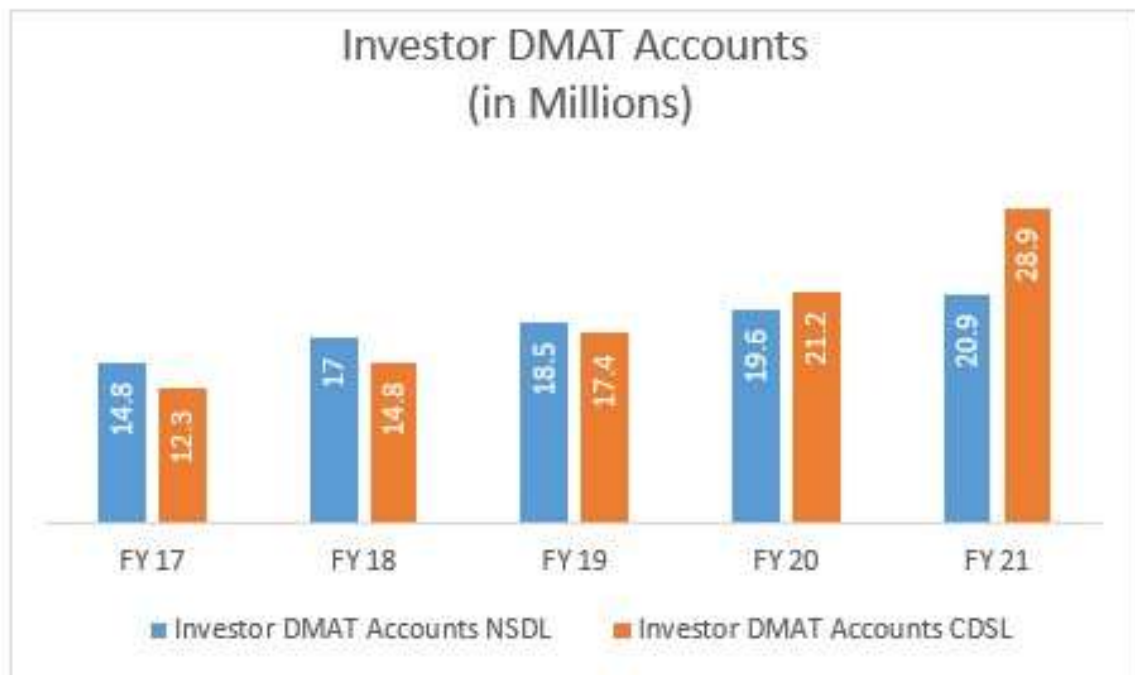
- **Pension Fund Regulatory and Development Authority (PFRDA)**

PFRDA has dedicated website called 'Pension Sanchay' launched in 2018. This website aims at increasing financial literacy from retirement perspective.

In addition to the above, the government of India has also implemented several schemes in order to increase financial inclusion such as, [Pradhan Mantri Jan Dhan Yojana](#), [Jivan Jyoti Beema](#), [Atal Pension Yojana](#) etc. These schemes are introduced for the ease of banking services, awareness, and general insurance awareness. In addition to this, the government arranges several financial literacy programs like financial education for children, retirement planning, commodity future markets and insurance for school students to educate and spread awareness among the young population.

Surge in equity market investors

Retail participation in the Indian stock market has increased dramatically over the last two years, as more first-time investors have shifted their focus from traditional means of investing and entered the stock market in search of higher returns. The pandemic-caused lockdown and subsequent work-from-home with high internet penetration fueled their enthusiasm even more. Between April and November 2021, the two depositories, Central Depository Services (CDSL) and National Securities Depository (NSDL) added 28.6 million new accounts.



Source: Business Standard

Impact of financial literacy on college student

Due to the escalating cost of postsecondary education in India, college students are facing significant financial stress and limited financial literacy, which may impact their academic success and well-being. This is particularly true for first-generation, low-income, and minority students, who often face increased barriers to accessing higher education. Although the Indian government offers various grants and loans for students with financial need, these programs are not keeping pace with the rising cost of tuition and fees. This financial burden, combined with limited financial literacy, may lead to decreased psychological and behavioral well-being among students, which can impact retention and graduation rates. It is essential to examine the dissemination of financial literacy in Indian schools and colleges to address this issue. Therefore, a study exploring the impact of financial literacy courses on student retention, graduation rates, GPA, and financial standing would be relevant in the Indian context.

College students are at a crucial stage in their lives where they are transitioning into adulthood, and financial literacy plays a crucial role in this process. Financial literacy can empower college students to make informed decisions about their finances and develop good money management habits that can last a lifetime.

One of the significant impacts of financial literacy on college students is that it helps them to become financially responsible. With the right financial education, college students can learn about the importance of budgeting, saving, and investing, and how to manage their debt effectively. This knowledge can help them avoid the pitfalls of financial mismanagement, such as overspending, debt accumulation, and poor credit scores.

Another impact of financial literacy on college students is that it can improve their financial well-being. By developing good financial habits, such as saving and investing, college students can build a solid financial foundation for their future. They can also take advantage of financial opportunities, such as scholarships, grants, and internships, which can help them reduce their financial burden and achieve their goals.

Financial literacy can also help college students make informed decisions about their career paths. By understanding the financial implications of their chosen profession, college students can make informed decisions about their student loan debt, salary expectations, and financial goals.

Finally, financial literacy can help college students become financially independent. By having a good understanding of personal finance, they can avoid relying on their parents or family members for financial support. This can give them a sense of pride and self-reliance, which can boost their self-confidence and prepare them for the challenges of adult life.

In summary, financial literacy has a significant impact on college students, both in the short and long term. By providing them with the tools and knowledge to manage their finances effectively, financial literacy can help college students become financially responsible, improve their financial well-being, make informed career decisions, and achieve financial independence.

- According to a study by the National Endowment for Financial Education (NEFE), college students who received financial education had an average credit card balance of \$487, compared to \$841 for those who did not receive financial education.

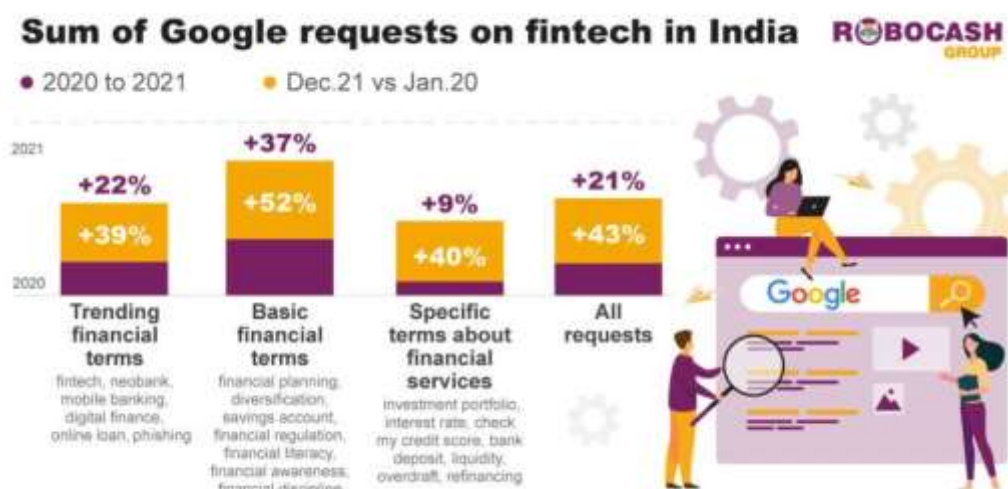
- Another study by the Higher Education Research Institute (HERI) found that college students who took a personal finance course were more likely to save money, manage their credit cards responsibly, and pay their bills on time.
- A survey by the College Investor found that 68% of college students worry about their financial future, with 26% saying that they feel overwhelmed by their debt.
- The same survey found that 74% of college students do not feel confident in their ability to manage their finances, with 23% saying that they do not know how to budget.
- A study by the Financial Industry Regulatory Authority (FINRA) found that only 17% of college students could answer three out of five basic financial literacy questions correctly.
- However, the same study found that college students who had taken a personal finance course in high school were more likely to save money, pay their bills on time, and avoid credit card debt.

Fintech services contribute to increase in financial literacy in India

With nearly 2000 fintech startups in the country, one would imagine India's financial literacy to be high. Yet, statistics show that despite a population of over 1.3 billion people, about 76% of the adult population still lacks basic financial concepts.

Interestingly though, things are beginning to change in India. Financial literacy in India continues to see positive improvements as the adoption of fintech grows in the country. This is proven by the number of successful fintech companies in India and the increased adoption of fintech use cases.

In fact, [Robocash Group](#) analysts showed that the number of Google search requests about fintech and financial services has nearly doubled since 2020. One of the biggest pushes for financial literacy in India was the COVID-19 pandemic. The pandemic has bolstered the financial adeptness of the population in India, and consequently, its financial awareness.



(Source – Robocash Group)

Among the highest search requests include basic financial terms which saw a 52% increase and specific terms about [financial services](#) (40%). The increase in financial terms search clearly indicates that the population is beginning to not only adapt fintech services but is also looking to understand more about the services being offered by fintech companies in India.

Moreover, most fintech companies tend to offer simpler and [personalized services](#) to customers compared to traditional banks. The simplicity and accessibility to such services are definitely one of the main factors why financial literacy is seeing a positive increase in recent times.

Prior to the pandemic in 2019, financial literacy was estimated to be only at 27% among the adult population aged between 18 to 80. The first wave of the pandemic had rapidly changed the current realities and forced consumers to expand their knowledge. A sharp rise was observed between May and September 2020. People in India are gradually becoming more involved with the topic, reaching a peak at the end of January 2022.

At the same time, the analysts also commented that the country still lacks in several areas. This included insufficient population income for 35% of the urban population and low Internet penetration of 45%.

However, there are also positive factors that may significantly accelerate the [development of financial literacy](#). For example, a well-developed financial infrastructure, a government-backed system of measures geared for improving financial literacy, and quick penetration of financial services (financial inclusion index went from 43.4 to 53.9 during the FY2020).

The aforementioned pre-pandemic 27% of financially literate Indians may be considered a starting point for the growth of financial literacy. If the identified trend is directly imposed upon this figure, the analysts believe it should grow to 38.5% by the end of 2022.

The growing significance of financial literacy in India – Gaps and opportunities

While the personal finance segment has grown exponentially in the last few years; there is still a need for increased financial literacy to make the sector more streamlined for consumers. As per a recent report by SEBI, only 27% of the country's population is financially literate. This highlights the need for increased financial literacy across the country, especially in Tier 2/3 cities and beyond.

Covid has been a testimony to the importance of building a thought-through financial corpus. People have faced financial crunches, due to sudden job losses, salary cuts; businesses across the globe faced unprecedented challenges. The good side of the coin is, people realised the importance of savings and investments to tackle any exigency. Consumers realised how prudent money management could help them secure their future and keep them away from the rainy days.

Given the rapid pace of digitalization across the globe and the advent of fintech companies, several digital solutions have been helping consumers with financial literacy and saving plans. Multiple personal finance apps have come up, which can track and categorize one's expenses and investments, help save in a disciplinary manner, and check and improve the credit score. Some apps even help consumers identify unwanted subscriptions so that consumers can cancel them and focus on savings. Many of these apps come with investment guiding tools and methods. Such apps provide a great way of guiding consumers with investment options and can be considered as a key tool for consumers' financial literacy. However, consumers should always be alert to the credibility, usage and security of the apps and then opt for them.

With the remote and virtual communication structure today, many companies and entrepreneurs are offering financial literacy virtually. Many institutions are providing courses that are customised for Indian consumers; the courses are well-researched and objective. Such courses are further bifurcated for entrepreneurs, MSME owners and women. Virtual courses have also been highly effective in the penetration of financial literacy in smaller cities.

Post-Covid, there has been a huge growth in seminars and conferences offering financial literacy. Right from banks to financial platforms, personal finance companies, individual financial experts have initiated such virtual events to help consumers understand investment tools and build a corpus as per their financial needs. Attending such conferences can boost confidence in young professionals, women take more informed financial decisions.

Another significant aspect of personal finance, which should never be forgotten is investing in a balanced insurance portfolio. Consumers need to understand that insurance will not only help in protecting their future and families, but it will create a protection cushion for securing the financial corpus that is being built. Traditional insurance companies and the new age digital insurance companies are working assertively in educating consumers about the importance of insurance and multiple insurance products. Many digital insurance companies are helping consumers choose the right insurance products through their tech-based platform; guided by an insurance advisor network. Such platforms and models have proved to be significant in improving the insurance literacy rate in the country.

While personal finance has been gaining significance in the last few years; there is still a huge gap in the financial literacy rate. Consumers in smaller towns and cities are comparatively more vulnerable when it comes to the understanding of finance and growing wealth. Thus, the public, as well as, the private sector need to join hands together for increasing financial literacy in the country. Digital should be used more and more to reach out to consumers and bridge the financial literacy gap in the country.

by, Indraneel Chatterjee, Co-Founder, RenewBuy

Conclusion

In conclusion, this research paper has examined the state of financial literacy in India and its growing significance. We have seen that financial literacy is essential for individuals to make informed decisions about their finances, improve their economic well-being, and contribute to the overall development of the country.

Through our analysis, we have identified several gaps and challenges that still exist in India's financial education ecosystem, such as inadequate infrastructure, lack of awareness, and low levels of financial inclusion. We have also highlighted the role of the government, the surge in equity market investors, and the impact of financial literacy on college students.

Furthermore, we have discussed the potential of fintech services to contribute to the increase in financial literacy in India. However, we have also recognized that technology is not a panacea and that it needs to be complemented with other initiatives such as financial education programs, public-private partnerships, and regulatory reforms.

Overall, this research paper has provided valuable insights into the current state of financial literacy in India, its importance, and the opportunities and gaps that exist. We hope that our findings will contribute to further research and policy action in this field, with the ultimate goal of improving the financial well-being of all Indians.

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