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Financial literacy vis-à-vis investor education in India

Dr. Pooja[1]

Financial literacy is the capability to procure financial information and make informed decisions about personal finance. Financial literacy is something far ahead of the legal provision that govern financial information and guidance. The focus of any discussion on financial literacy is mainly on the individual, who usually has limited resources and inadequate skills to understand the complexities of financial dealings with financial mediators on a day to day basis. Financial education has achieved greater significance in recent years due to complex financial markets and rapid growth in financial products. Financial Literacy helps individuals to manage their financial affairs such as savings, investments, credit, retirement decisions, etc. and improve their standard of living which ultimately helps in the growth of the whole economy. In India, the need for financial literacy is even greater because of the low levels of literacy and prevalence of large sections of the population which is still out of the formal financial set-up. Financial Literacy is considered an important addition for promoting financial inclusion, consumer protection and ultimately financial stability. Unfortunately, India ranks lowest in financial literacy amongst Asia-Pacific countries. However the results are poor but on a positive note a lot of initiatives are taken by RBI and other financial bodies to increase financial literacy. The level of financial literacy in urban working youth of India is also lower than the level that prevails in comparable group in other countries. The present paper is an attempt to throw some light on the present scenario of financial literacy in India as well as initiatives taken by regulatory bodies to enhance the level of investor literacy in India.
KEYWORDS: Financial literacy, Personal finance, Financial Institutions, Financial Inclusion.

1 Asst Prof in Commerce, Govt. college for Girls, Sector-14, Panchkula

Introduction

Financial planning is a must for every individual. Domestic financial stability remains a crucial challenge in many households, and the recent economic crisis has confirmed that now days, the skills related to personal financial management have gained more importance than ever. The financial market is now getting more complex. Today's financial market is riskier, global and innovative. Financial market is now full of new and complex financial products which has emphasized on the fact that empowerment of financial consumer is must. For this purpose financial literacy has become a necessity in current societal and financial context. Financial literacy is the ability to process financial information and make informed decisions about personal finance. Policymakers in both developed and developing countries are increasingly recognizing the importance of financial literacy and of investing resources in financial education programs.

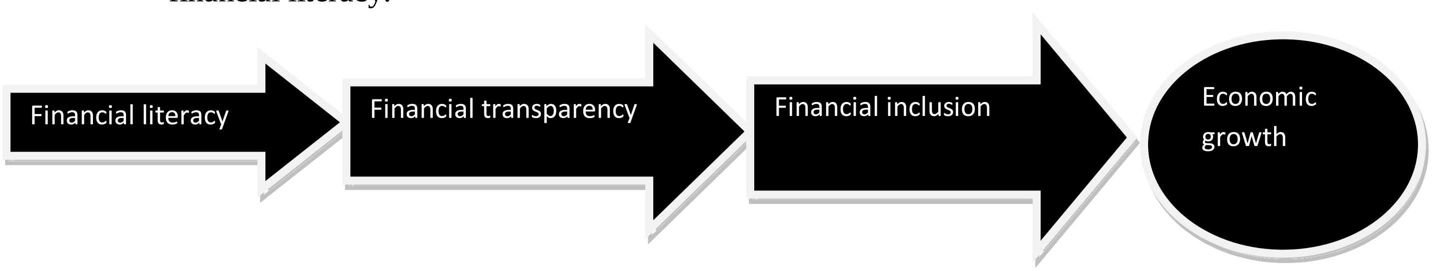
Literature review

Noctor, Stoney and Stradling (1992) in work undertaken on behalf of National Westminster Bank in the U.K., where they have introduced, conceptualized and defined the term "financial literacy" as "the ability to make informed judgments and to take effective decisions regarding the use and management of money"(p. 4). '

While several widely used definitions of financial literacy exist, all of them generally imply the ability of individuals to obtain, understand and evaluate information required to make decisions to secure their financial future as best as possible. The National Financial Educators Council defines financial literacy as: "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. After due consideration of different views and the feasibility of using the definition for research, the OECD definition of financial literacy was adopted for the study, which defines it as, "A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing." (OECD INFE, 2005). Since the OECD definition has been used for surveys on financial literacy across several countries, use of that definition provides the possibility of benchmarking the results in the Indian context against the results for other countries. So it is clear that financial education is a capacity building process. It is a capacity by which individuals can manage their personal financial matter rationally and convert their savings in profitable investment where they can get highest return than any other investing instrument, which will secure not only their future but will also help the whole economic system. Financial literacy increases transparency, accountability from service providers end while customers also get huge advantage as they start understanding techniques of investment. Financial literacy makes an investor more empowered and leads economy towards financial inclusion, consumer protection and ultimately financial stability.

Objectives of research:

- To understand the reasons behind financial illiteracy in Indian society and
- To emphasize the need of financial literacy in current scenario
- To know what the financial sector regulatory bodies/authorities are doing for enhancing financial literacy.



Research Design

The design of research study is exploratory. The data used is secondary. i.e. data is collected from various sources such as magazines, journals, research papers, newspapers etc. Different websites are also being studied to collect the required data.

Financial Literacy in Indian scenario: Problem Area

Financial literacy has gained importance for country like India where literacy rate is low and people in rural areas are still out of access of basic financial set up and services. Indians are suffering from the financial disease like underinsurance, debt trap, insufficient retirement fund, low return on investment etc., and the cause of all these is one and the same i.e."Financial Illiteracy"(Jariwala Harsha and Sharma Mahendra,2011). Only providing financial products to rural or urban areas is not sufficient, people need to be well-informed in terms of fundamental financial products, knowhow of financial market, benefits of availing financial services.

After the series of economic reforms of India in 1991, the saving rate as a % of GDP is increasing. Now India has one of the highest saving rates in the world, but unfortunately due to lack of financial awareness, the allocation of these savings is not equally productive. Investments by households have been predominantly in secured avenues. Recent scenario of the Indian financial market shows that, much of the financial savings of the household sector are in the form of bank deposits (around 30 % in the 2000s), life insurance funds (22 %in the 2000s as against 9.6 %in the 1980s), and pension and provident funds (16.5 % in the 2000s as against 23% in the 1980s). There has been a decline in the proportion of pension and provident funds, particularly since the late 1990s.

Shares and debentures accounted for 8.3 per cent of total financial savings in the1980s; their share increased to nearly 13 percent in the 1990s before declining to 4.8 per cent in the 2000s. Table1 shows the gross Domestic savings in India from 2006-07 to 2013-14. The values shown in Table 1 reveal that out of the total Gross domestic savings, a major portion is contributed by household. It also shows that Indian people mostly invest in physical assets rather than financial savings i.e. stock market securities. Such lack of interest in financial savings can be due to financial illiteracy.

TABLE-1: DOMESTIC SAVING IN INDIA (% OF GDP)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (Estimated)
Gross Domestic Savings	34.6	36.8	32.0	33.7	34.0	30.8	31.0	32.4
Household Savings (a+b)	23.2	22.4	23.6	25.2	23.5	22.3	22.8	22.7
Financial saving(a)	11.3	11.6	10.1	12.0	10.4	8.0	9.6	10.0
Saving in physical asset(b)	11.9	10.8	13.5	13.2	13.1	14.3	13.2	12.7

Source: Compiled from data retrieved from website of Central Statistical Organisation (India)

Financial Literacy: India versus Other Countries

Recently MasterCard conducted a survey of Financial Literacy and later Financial Literacy Index (2013H1) has been created. Survey was conducted between April 2013 and May 2013 on 12,205 respondents aged 18 – 64 in 27 countries across 3 key regions: Asia/Pacific, Middle East and Africa (APMEA). The Index comprises questions covering three major components: Basic

Money Management (50%) Financial Planning (30%) and Investment (20%). There are 16 countries included in the Asia/Pacific region: Australia(AU), New Zealand(NZ), China(CN), Hong Kong(HK), Taiwan(TW), Japan(JP), Korea(KR), Bangladesh(BD), Malaysia(MY), Philippines(PH), Thailand(TH), Indonesia(ID), Singapore(SG), Vietnam(VT), India(IN) and Myanmar(MM). The results as revealed by the study were compiled in Financial Literacy index shown below:

TABLE 2: FINANCIAL LITERACY INDEX

COUNTRY	RANK	FLI
NEW ZEALAND	1	74
SINGAPORE	2	72
TAIWAN	3	71
AUSTRALIA	4	71
HONGKONG	5	71
MALASIA	6	70
THAILAND	7	68
PHILIPPINES	8	68
MAYANMAR	9	66
CHINA	10	66
BANGLADESH	11	63
VIETNAM	12	63
KOREA	13	62
INDONESIA	14	60
INDIA	15	59
JAPAN	16	57

Source: MasterCard survey 2013: Financial literacy Index

In terms of overall financial literacy, India is at the bottom among 16 countries in the Asia-pacific region. India is one step above (with 59 index points) from Japan (57 points). 7756 respondents aged 18-64years participate in survey from India. Interestingly, the financial literacy scores for Indians aged 30 and above were 59 compared with 61 for those less than 30 years of age of other countries. Still the financial literacy rate among younger population in other countries is much higher than that of matured Indian population.

Financial literacy Initiatives in India

In India, since a large number of stakeholders including the central and state governments, financial regulators, financial institutions, civil society, educationists and others, are involved in spreading financial literacy; a broad national strategy is the need of the hour. Reserve Bank of India implemented "National strategy for Financial Education". Along with that, Reserve Bank of India has also undertaken a project titled "Project Financial Literacy".

CYSD (Center for youth and social development) undertook its Financial Literacy programmes in partnership with the Indian School of Microfinance for Women (ISMW), and the National Alliance for Financial Literacy (NAFIL). CYSD was a nodal organization for the Financial Literacy initiatives of the above-mentioned entities, and covered 20 districts with an integrated project which offered several interventions including Financial Literacy.

Financial Information Network & Operations Ltd (FINO) is also a pioneer institute for spreading investor education. It was founded in 2006. It acts as an innovator and integrated technology solutions provider.

FLAME is an India Info line (IIFL) initiative to promote Financial Literacy amongst the masses. The aim is to help low income groups avail of products which foster financial growth and security through better awareness and education on a variety of financial products while helping them avoid the lure of and losses from unrealistic claims made by unscrupulous agents

Securities Exchange Board of India (SEBI) has embarked financial education on a nationwide campaign. SEBI's Certified Resource Persons organize workshops to target segments on various aspects viz. savings, investment, financial planning, banking, insurance, retirement planning etc.

Insurance Regulatory and Development Authority (IRDA) has also taken various initiatives in the area of financial literacy. Awareness programmes have been conducted on television and radio and simple messages about education of investors.

Commercial banks are increasingly realizing that they are missing out on large segment of financially illiterate and excluded segment of prospective customers. Also, in view of the national emphasis on electronic benefit transfer the commercial banks have initiated various measures for creating awareness through Financial Literacy and Counseling Centers and Rural Self Employment Training Institutes on financial literacy.

Government had issued detailed strategy and guidelines on Financial Inclusion in October 2011, advising banks to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts. As per reports received from the Convener Banks of State Level Bankers Committees (SLBCs), out of 3,930 identified villages/ habitations, branches have been opened in 3,125 villages/ habitations (including 1,998 Ultra Small Branches) by end of January, 2013. However, RBI advised banks to draw up a road map to provide banking services in every unbanked village having a population of over 2,000 by March 2012.

The Central Board of Secondary Education (CBSE) in collaboration with National Institute of Securities Markets (NISM), Mumbai is going to conduct India's first National Financial Literacy Test (NFLT) for schools students. This will be first national-level test to assess the level of financial literacy and basic knowledge of Economics among school goings. Apart from this, other initiatives are as follows: Roll out of Direct Benefit Transfer w.e.f. 01.01.2013, Setting up of Ultra Small Branches (UBSs), Business Correspondent Model and Simplification of Know Your Customer (KYC) Norms.

Conclusion

For enhancing financial literacy, the focus on the common man is particularly necessary in India. Financial literacy is important because better-educated consumers will make sound decisions. The benefits of enhanced financial literacy may be great. On a personal level, individuals may save more and manage their financial affairs in a better manner. There may even be general equilibrium effects: increased demand households for financial services may improve risk sharing, reduce economic instability, improve intermediation, and speed overall financial development. This in turn could facilitate competition in the financial services sector and, ultimately, more efficient allocation of capital in society By giving the emphasis on education in India, it should be possible to enhance the financial literacy of youngsters relatively quickly by adding relevant material on financial literacy in the general education program of schools and colleges.

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