



FINANCIAL LITERACY AS A TOOL OF FINANCIAL INCLUSION

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ABSTRACT

Financial literacy is utmost importance for any country's Financial Inclusion & economic growth. Organization for Economic Cooperation and Development demarcated financial literacy as a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve Financial Inclusion. The issue of financial literacy is of greater concern in developed countries than the developing nations. Financial literacy gained far more importance after the financial distresses and become the pre-requisite with the objective to avoid financial crises by attaining financial stability. The research paper attempts to address the influencing factors of financial literacy, Financial Inclusion status through Financial Literacy and Role of concerned Regulatory authorities for promoting financial literacy and as per literature review it is noticed that the financial literacy status is not satisfactory, especially in rural areas and the people are not aware of financial services offered. Finally, concluded with policy suggestions. And data has been gathered through secondary source and descriptive methodology has been adopted.

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KEYWORDS: Financial Inclusion & Financial Literacy

INTRODUCTION

The turbulence being faced by the economies across the world, including India, has called for a new wave of reforms to reverse the worsening economic climate of the country. Post global financial crisis, Financial Literacy & Financial Inclusion has become a subject of considerable interest among policy makers, researchers and other stakeholders. This heightened interest reflects a better understanding of the importance of financial inclusion for economic as well as social development. Across the nations, both economically rich and fiscally poor, it is being increasingly recognized that access to financial services has a critical role in reducing extreme poverty, boosting shared prosperity, and supporting inclusive and sustainable development. Similarly, financial literacy is rapidly being recognized as a core skill, essential for consumers operating in an increasingly complex financial landscape. It is therefore no surprise that governments around the world are interested in finding effective approaches to improve the level of financial literacy amongst their population and that many are in the process of creating and implementing a national strategy for

financial education to provide learning opportunities throughout a person's life.

REVIEW OF LITERATURE

Several books, reports and articles were reviewed; few of them have been placed here.

Pratima Trevedi & Saumya Trevedi (2016,) in their research paper tries to find out level of financial literacy in our country and steps initiated for making public financially literate.

Sharma. M (2016), the author presented, various measures for financial inclusion taken by the government of India since globalization and also compared the degree of financial inclusion in India with other emerging and advanced economies.

Veeramani. S (2015), the author focused on the role of governments, PSBs, PBs and RRBs, and establishment of adequate number of Financial Literacy Centers (FLC), measures to improving connectivity and infrastructure as an ongoing continuous endless process by expecting full extendable support from various stakeholdersthe. The author also

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emphasized on Financial Inclusion and the Progress of PMJDY and its issues & challenges.

Lavanya Rekha Bahadur (2015), explained the current scenario of the Financial Sector, providing recommendations, giving a direction, and providing changes that can be implemented to modify the existing policies, propelling India to become the next super power keeping in mind the undervalued importance of financial literacy.

Kumar.V (2014), focused on Unique Solutions to attain the financial inclusion. It is intended to connect people to financial markets & financial institutions (banks) with consequential benefits, ensuring that the financial system plays its due role in promoting inclusive growth.

“World Economic Outlook”(2014), a report by the International Monetary Fund (IMF), reviews the economic developments world over and states possible future projections with regard to the World Economy. The report feels that global economic recovery will continue to be uncertain and global economic growth will decline further.

Ramasawmy (2013), assessed the level of awareness of financial literacy among management student. The study considered four fundamental aspects of financial literacy viz. level and importance, definition and theories, constraints and measures. Based on the survey performed, it was analysed that there was no impact of age, gender, language, race and income level on financial education.

Sumit kumar & Dr.Md. Anees (2013), the financial education has grown a lot from its pre liberalization beginning to the present day conditions of post liberalization corporate era. In their study takes into accounts the different dimensions of financial literacy and education in India. The study also concludes that the strategy for improving financial well-being of individuals in India should be focusing the young investors.

Bonte and Filipiak (2012), conducted a large scale survey to investigate the relevance of social interaction and caste affiliation on saving patterns of India. Taking into consideration individual awareness regarding financial instruments the study posed positive association between financial literacy and social interaction. There was lower probability of awareness

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about financial concerns in backward caste people. In contrast, the study found a weak empirical evidence for the effect of social interaction and caste affiliation on investment behavior of households.

NEED FOR THE STUDY

In India Post demonetization (2016), Financial Literacy has become the pre-requisite with the objective to avoid financial crises by attaining financial stability in this cashless / digital economy. The need for financial literacy and its importance for financial inclusion have been widely recognized. Based on various research studies on financial literacy initiatives, this column outlines financial services' needs of a poor household at various stages of its life cycle. India, a fast growing economy with focus of inclusive growth and a stable financial system, identifies the need and has accordingly prepared the National Strategy for Financial Education (NSFE) under guidance of the Technical Group on Financial Inclusion and Financial Literacy of the Financial Stability and Development Council (FSDC), which would cater to all sections of the population in the country. The knowledge of financial concerns helps in hedging the risk and maintaining the stability in the financial

systems. So for a sound development policy, better knowledge about the elements of financial literacy and investment behavior is of utmost importance.

OBJECTIVES OF THE STUDY

1. To study the present status of financial inclusion & financial literacy in India
2. To study the influencing factors of financial literacy.
3. To address the Role of concerned Regulatory authorities for promoting financial literacy.
4. To Address the initiatives taken by technical group on financial inclusion and Financial literacy

METHODOLOGY

The present study is descriptive in nature. Data has been gathered through secondary source, such as OECD report, RBI bulletin, Ministry of Finance reports, reputed journals & newspapers and other useful web sources.

SCOPE OF THE STUDY

The scope of the present study is limited to financial inclusion through financial literacy and Role of concerned Regulatory authorities for promoting financial literacy in India.

FINANCIAL INCLUSION IN INDIA-STATUS

It is estimated that about 2.9 billion people around the world do not have access to formal sources of banking and financial services. Inclusive growth has been unanimously and globally recognized as one of the key elements for eliminating poverty and narrowing down the glaring urban-rural economic disparity, but it is quite difficult for the formal financial institutions to penetrate into every nook and corner of India to financially include our huge unbanked population. Therefore in India, Financial inclusion is intended to connect people to banks with consequential benefits, ensuring that the financial system plays its due role in promoting inclusive growth in one of the biggest challenges facing the emerging economies. The concept of financial inclusion was first incorporated with the K.C. Chakraborty, the chairman of Indian Bank in 2005. Financial inclusion means providing basic banking facility to most of population. People who are not having a bank account or do not have access to credit can be termed as financially excluded. The NDA govt has taken up financial inclusion as National Mission and introduced PMJDY is advanced financial

inclusion program in 2014, because it had focus on individual households. And post demonetization (2016) high emphasis has given on financial inclusion in rural, semi - urban and urban areas. Pondicherry, Himachal Pradesh and Kerela declared 100% financial inclusion in all their districts. Even in 2011, the UPA government was focused on expanding the banking networks in rural and unbanked areas on the name of “Swabhimaan.”

ORIGIN OF FINANCIAL LITERACY – GLOBAL VIEW

The Organization for Economic Co Operation & Development (OECD) has taken the lead in examining financial literacy across member countries and suggesting how to improve it. It has released the first major international study on financial education (entitled Improving Financial Literacy) as well as the world’s first practical guidelines on good practices in financial education and awareness. These are addressed to all countries, developed and developing, that are interested in financial education and are designed to help them design and implement effective financial education programs. These guidelines, in the form of a non-binding recommendation, are drawn from the experience of OECD

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countries on best practice in this area. They promote the role of all the main stakeholders in financial education: governments, financial institutions, employers, trade unions and consumer groups. The G8 Finance Ministers' meeting in St. Petersburg in June 2006 recognized the importance of financial education, welcomed "the ongoing work in the OECD on the Financial Education Project and called for further development of financial literacy guidelines based on best practices."

FINANCIAL LITERACY IN INDIA – STATUS

The concept of financial literacy is essentially spreading the knowledge of good money management practices. It encompasses all monetary transactions that a person enters into such as earning, spending, saving, borrowing and investing. Financial literacy is a process of making meaning of, and understanding, financial issues and situations. The need for financial literacy and its importance for financial inclusion have been acknowledged by all possible stakeholders - policymakers, bankers, practitioners, researchers and academics – across the globe. Various financial literacy programs have thus been implemented by concerned institutions, with a lot of them

being unique in their approach and delivery mechanisms. For instance, programs have been customized to suit the requirements of students, microfinance clients, slum dwellers, bank clients etc. Some programs have a particular focus such as a specific financial product, developing saving habit among target group, customer protection, business management, and so on, while others are more general and deal with money management skills, advocating healthy financial practices etc. Varied techniques such as videos, stories, activities, comic books etc. are used, along with traditional methods of classroom training. Banks began setting up 'financial literacy and credit counseling centers. While a lot of experimentation has been done in the realm of financial literacy, it is difficult to point to one standardized method or approach that works best in all scenarios with all kinds of target populations. Although this could be attributed to the lack of a standard definition or measurement tool, it is also a result of India's diversity in terms of language, caste, culture etc. Hence, it is challenging to design a product that 'fits all' sections of the population equally well.

As per literature review it is seen in India status of financial literacy is not satisfactory,

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especially in rural areas. People are not aware of financial services offered. In rural area people keep their saving in their homes which fetches them no interest and is risky also on account of theft. They borrow from local money lenders who charge very high interest rates. Traditional methods are more popular in rural area.

STEPS INITIATED BY TECHNICAL GROUP ON FINANCIAL INCLUSION AND FINANCIAL LITERACY

The Role of Technical Group: A Technical Group on Financial Inclusion and Financial Literacy of the FSDC sub-committee was set up to co-ordinate the efforts on financial inclusion and literacy at the policy level. The group is chaired by the Deputy Governor, Reserve Bank of India and has representatives from all regulators and the Finance Ministry. A National Centre for Financial Education (NCFE), comprising representatives from all financial sector regulators has been set up to implement the National Strategy on Financial Education (NSFE). NCFE's main role is to create material on financial education and conducting financial education campaigns across the country. In India, financial literacy has been regarded as a process that provides demand side support for financial

inclusion. To assess the extent level of financial literacy and inclusion, a pan-India survey is being conducted by the Reserve Bank. Target-specific content for five target groups' viz. farmers, small entrepreneurs, self-help groups (SHGs), school students and senior citizens is also being designed for tailored financial literacy programs conducted by Financial Literacy Centers (FLCs). A pilot project for setting up 100 Centers for Financial Literacy (CFL) at the block level to scale up the existing FLC infrastructure has been initiated.

Some of the initiatives were taken under the aegis of the technical group are as follows

Functioning of Financial Literacy Centers (FLCs): Guidelines for banks' financial literacy centers and the operational guidelines for conducting camps by FLCs and rural bank branches were revised in January 2016. Banks have been advised to put in place board approved policies for stronger FLC architecture in terms of providing basic infrastructure to FLCs as well as appointing FLC counselors. As on March 2016, 1,384 FLCs were operational. During 2015-16, 87,710 financial literacy activities (outdoor camps) were conducted by FLCs.

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2. Pilot project on setting up Centers for Financial Literacy (CFLs) : Given the challenges of skewed distribution of existing FLCs in a few states, limited outreach and to have an exclusive focus on financial literacy at the ground level, the Reserve Bank is encouraging banks to set up CFLs at the block level on a pilot basis in a few states. The pilot project to set up 100 CFLs across 10 states with support from the Financial Inclusion Fund has been initiated. Possibilities of partnerships with eligible NGOs/institutions are being explored to bring in innovative and more efficient approaches/ methods for conducting financial literacy activities.

The key elements of this block level CFL project areas follows.

- Area based approach (block)
- Schedule of camps
- Skilled workforce
- Partnerships with NGOs
- Use of technology
- Common name and logo 'Moneywise Centre for Financial Literacy'

3. Kiosk project

About 100 kiosks (30 interactive kiosks and 70 non-interactive LFDs) are being set up in

five states on a pilot basis in public places like banks, post offices, collector's offices and primary health centres to promote financial awareness. The kiosks will display messages in different languages controlled from a central location.

4. Financial education in school curriculum

In collaboration with CBSE, NCFE has prepared financial education workbooks for classes VI to X; these are in the process of getting CBSE's final approval. Meanwhile, NCFE and the Reserve Bank are pursuing with state education boards for the adoption of the financial education workbooks in the school curriculum in their jurisdictions by appropriately integrating them with different subjects. Four state governments viz. Goa, Meghalaya, Jammu and Kashmir and Mizoram have agreed in principle to include financial education topics in state board school curricula. Talks with other state governments are at different stages.

5. Improving financial literacy levels

Going forward, Reserve Bank envisages further steps for improving the financial literacy levels which include, among others, designing and implementing capacity

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building programs for FLC counselors and bank branch heads in rural areas and conducting surveys for obtaining insights on financial knowledge, attitudes and behavior of the people.

THE ROLE OF REGULATORY AUTHORITIES FOR PROMOTING FINANCIAL LITERACY

The Role of RBI: Reserve bank of India (RBI) under its Financial Initiative programmes has undertaken a project titled 'project financial literacy' the objective of this project is to provide information about RBI and general banking concept to its target people. These informative projects disseminate information regarding RBI, basic banking, microfinance and benefits of availing services of SHG, risk capacity analysis etc. RBI officials also take road shows, skits, games, comic books etc for increasing awareness.

The Role of Commercial Banks: 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. The objective of these centers is to

advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counseling people who are struggling to meet their repayment obligations and help them resolve their problems of indebtedness, helping in rehabilitation of borrowers in distress etc.

The Role of SEBI: SEBI is very active regulatory body in terms of financial literacy. SEBI is running a campaign called securities market awareness campaign (SMAC) under motto "an educated investor is a protected investor". Under this campaign SEBI organize workshops to these target segments on various aspects viz. savings, investment, financial planning, banking, insurance, retirement planning etc. SEBI has a dedicated website for investor education wherein study materials in English and vernacular languages are available. Under 'Visit SEBI' program, School and college students are encouraged to visit SEBI and understand its functioning. Recently SEBI Helpline has been set up in 14 languages wherein through a toll free number, investors across the country can access and seek information on various issues.

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The Role of IRDA: Insurance Regulatory and Development Authority has taken various initiatives in the area of financial literacy. Awareness programs have been conducted on television and radio and simple messages about the rights and duties of policyholders, channels available for dispute redressal etc have been disseminated through television and radio as well as the print media through sustained campaigns in English, Hindi and 11 other Indian languages. IRDA conducts an annual seminar on policy holder protection and welfare and also partially sponsors seminars on insurance by consumer bodies. IRDA has also brought out publications of 'Policyholder Handbooks' as well as a comic book series on insurance.

The Role of PFRDA: The Pension Fund Regulatory and Development Authority, India's youngest regulator has been engaged in spreading social security messages to the public. It has developed FAQ on pension related topics on its web and has been associated with various non government organizations in India in taking the pension services to the disadvantaged community.

The Role of Other Regulatory Bodies: Stock Exchanges, Broking Houses and Mutual Funds have initiatives in the field of

financial education like conducting seminars, issuance of do's and don'ts, and newspaper campaigns. Insurance companies too, carry out campaigns and other educational activities for generic education in insurance.

INFLUENCING FACTORS OF FINANCIAL LITERACY

The financial literacy level majorly depends upon the education and income of the individuals; the social factors such like family size, family background, age, regions nature of employment have a little impact on this.

(a) Gender: Financial literacy is affected by gender as women's literacy in India is matter of debate since past, hear as women's are saving rate among women's is high not in formal ways as there are several biasness only the matters of education among them. In the present periods

India has improving status of women's in terms of educations as well as employment level.

(b) Age: Financial literacy follows an inverted-U shape with respect the age. Financial literacy increases among the youths is high as soon as the age increases it

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decline, this is may be due to time as soon as time varies a lot of changes took place in the financial market and youth is make effort to update and accept the changes.

(c) Education & Income: Financial literacy is associated with higher educational attainment and income. As soon as the education levels of individuals increases their understanding about the financial terms and clarity about their financial needs and goals in order to protect their finance they increases the effort towards the accessing the information ,which ultimately enhances their knowledge of present financial services and products.

(d) Geographical region & Employment Financial literacy is associated with more sophisticated investment. Financial literacy is independent of geography and religions of the individuals. While it is dependent upon the nature of employment the private employees have better levels in comparison of government employees.

CONCLUSION & SUGGESTIONS

So far in India, even though there is no blueprint to a successful financial literacy program as yet, taking a cue from the above

mentioned aspects is essential to come closer to designing one.

As per literature review it is noticed that the financial literacy status is not satisfactory, especially in rural areas and the people are not aware of financial services offered. The efforts that are being put in by stakeholders to empower people while making them financially literate are commendable but need to be more focused and customized as the rule of 'one size fits all' doesn't seem to apply in this sphere. Providing the right advice at the right time and with the right approach is the key and this indicates vast scope for work and innovation. Financial literacy program plan is very essential for financial inclusion, which may creates proper knowledge, behaviors and attitude then only achieve successful inclusive financial growth and it is suggested that Financial literacy & financial education should be on the agendas of educators, businesses, government agencies, policy makers, NGOs and the issues should be dealt with policy reforms at the national level.

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