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ORIGINAL ARTICLE

FINANCIAL LITERACY IN INDIA

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Abstract:

Financial literacy is gaining importance in recent years as number new products have been continuously offered in the financial markets. Whatever the type of business such as corporates, small business and family run business the financial management is vital important. Financial literacy enables the efficient financial management ultimately results in increased profitability and reduces cost. The global researchers indicated that, India is least financially literate country. Keeping these things in mind the Reserve Bank of India imitated financial literacy programs to improve the financial literacy of Indians. In case of agriculture the commercialized way of farming calls for farmers to act as entrepreneur. The farm entrepreneur should have enough financial literacy on financial planning, acquisition and allocation of finance to become successful in farming. Now very limited research has been done on the financial literacy of farmers in India. This paper call for research in financial literacy of farmer and its impact on farm productivity by emphasizing the importance of financial literacy in India

KEYWORDS:

Financial literacy, financial management and farm entrepreneur.

INTRODUCTION

Financial literacy is defined as the knowledge acquired through formal education or by practice, to manage one's own personal financial needs (Garman and Forgue, 1997). It refers to the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being (President's Advisory Council on Financial Literacy, PACFL, 2008).

Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to increasingly difficult to make informed choices. Financial literacy is considered an important adjunct for promoting financial inclusion and ultimately, financial stability. In India, the need for financial literacy is even greater considering the low levels of general literacy and the large section of the population, which still remains out of the formal financial setup (Seth et al).

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FINANCIAL LITERACY-INDIAN STATUS

As per the VISA report, Indians were the least financially literate people across the globe. As per the 'Global Financial literacy barometer', India ranked 23rd (with respect to financial literacy) among the 28 countries surveyed, with 35 per cent of its population termed financially literate. Brazil topped the ranking with 50.4 per cent of its population as financially literate followed by Mexico (47.8 per cent), Australia (46.3 per cent), US (44.6 per cent) and Canada (43.8 per cent) (Financial Express, 2012). As per the MasterCard financial literacy index of 2012, India ranked 20th in Asia Pacific Middle Eastern region, four spots behind China (16th rank).

Gaurav (2009) evaluated the impact of financial literacy on adoption of rainfall insurance among 600 small scale farmers in Gujarat and the results reinforce that individuals educated in financial literacy and insurance were more likely to purchase rainfall insurance. The findings from the financial literacy and debt-literacy tests reveal the low financial awareness of the farmers act as a formidable barrier to adoption of complex financial products like rainfall insurance.

The results are similar to those in Patt, Suarez and Hess (2010) as a large proportion of the farmers have difficulty in understanding most of the fundamental concepts of insurance that would be necessary to make a fully informed and educated choice even after learning about index insurance through conventional education sessions or simulation games.

Gaurav (2009) studied the predictors of financial literacy among 600 small scale farmers in Gujarat. The regression results revealed that, age was the statistically significant variable and positively predicts financial literacy. Older individuals are generally more financially literate. However, education does not have any significance in predicting financial literacy. Landholding, caste categories, Cognitive ability were significant predictors of financial literacy.

Agarwal et al (2010) studied the financial literacy in India by analyzing the data provided by the Investment Yogi Financial Advisory Services and asking questions related to interest rate, inflation and risk diversification. They employed Spearman Rank Correlations to measure the correlation between the correct answers to the questions. The cross correlations are all positive and statistically significant. The correlation for the correct answers to the inflation and diversification question is somewhat higher than that between the correct answers for the inflation and interest question or for the interest and diversification question.

SIGNIFICANCE OF FINANCIAL LITERACY

In the context of 'financial management', the scope of financial literacy is relatively broader and it acquires greater significance since it could be an important factor in financial planning, acquisition and allocation of finance. In countries with diverse social and economic profile like India, financial literacy is particularly relevant for people who are resource-poor and who operate at the margin and are vulnerable to persistent downward financial pressures. With no established banking relationship, the un-banked poor are pushed towards expensive alternatives. The challenges of financial management under difficult circumstances with few resources to fall back on could be accentuated by the lack of skills or knowledge to make well-informed financial decisions. Financial literacy can help them prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt (www.rbi.org.in).

RBI INITIATIVES ON FINANCIAL LITERACY

In India, the need for financial education is even greater considering the low levels of literacy and the large section of the population, which is still out of the formal financial setup. Towards this end, the Reserve Bank of India (RBI) has undertaken a project titled "Project Financial Literacy". The objective of the project is to disseminate information regarding the general banking concepts to various target groups, including, school and college children, women, rural and urban poor, defense personnel and senior citizens. The project has been designed to be implemented in two modules, one module focusing on the economy, Reserve Bank and its activities, and the other module on general banking. The material will be created in English, Hindi, and regional languages. It would be disseminated to the target audience with the help of banks, local government machinery, schools and colleges through presentations, pamphlets, brochures, films and through the Bank's website. The RBI has also created a link on its web site for the common person to give him the ease of access to information, in 13 regional languages, which he can use in his dealings with banks.

Hyderabad office of the Reserve Bank has formulated multi-modal, multi-lingual (English, Hindi, Telugu and Urdu) and customized interactive strategies for spreading financial literacy among the common

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persons, school children, college students, farmers, women and villagers in particular. Chennai Office has brought out two comic books titled 'Currency Matters' and 'Bank Matters' in English and Hindi as part of the Bank's financial education efforts. The books are being translated into Tamil (RBI Annual Report, 2006-07).

New Delhi Office brought out a comic book on basic banking, titled 'Raju and the Money Tree' in English and Hindi in 2007. A Core Committee on Financial Education, comprising of officers from RBI, New Delhi conceived and scripted the story of the comic book as also handled the artwork. The comic book was also brought out in Braille for the benefit of visually impaired persons (RBI Newsletter, 2007).

Under financial literacy project Bangalore Office has released, series of four comic books, in English and Kannada, dealing with (i) introduction to basic banking, (ii) deposits, (iii) SHGs loans especially agricultural loans and other livelihood loans like government sponsored schemes, etc. and (iv) other lifestyle enhancing loans like housing loans, vehicle loans, etc. and other products like ATM cards debit, credit cards. As an initiative in reaching out to a larger audience, the Office had put up a stall in the Mysore Dasara Exhibition where this film was screened along with other information of relevance to the common man (RBI Newsletter, 2007).

The economic importance of financial literacy

In developing countries, the growing number of consumers becoming involved in newly developing financial markets and newly liberalizing economies means that some level of financial literacy will be required if these markets and economies are to expand and operate efficiently. In addition, the growth of international transactions during the last decade, resulting from new technologies and the growing international mobility of individuals, makes the issue of improving financial literacy increasingly an international concern.

Financial literacy helps to improve the efficiency and quality of financial services. If financial service providers have a significant information advantage over consumers with respect to the financial products and services offered, this could weaken financial markets. Information asymmetry to the advantage of financial institutions and advisers can be very detrimental to consumers in that, they will not have the proper tools to fully appreciate their rights and responsibilities as financial consumers, the financial risks they may be exposed to, the terms and conditions of their financial products, and so forth. It results in suboptimal choices and decisions by consumers, choices that are most often and more costly or not appropriate for their needs (James, 2009). Financially, literate consumers help to reinforce competitive pressures on financial institutions to offer more appropriately priced and transparent services, by comparing options, asking the right questions, and negotiating more effectively.

As financial markets have become increasingly complex in recent years in both developed and developing countries, more products and providers and consumers have greater responsibility for critical financial decisions (Miller, 2009). The very poor people also face an increasingly complex financial environment, due to the growth of microfinance, remittance networks, branchless banking, and micro-insurance services now available in the market. Financial literacy and basic education should be made relevant and useful to peoples' daily lives and development activities. Financial literacy must have adequate financial support to bring a substantial change in the society, and Illiterates in developing countries share those attributes that are common among peoples with high level of illiteracy (UNESCO, 1990). The illiterates are the sector of the society that are denied their rights to education and most excluded from information and knowledge sources and opportunities.

A compelling body of survey evidence from developed countries shows that households with low levels of financial literacy tend not to plan for retirement, borrow at higher interest rates, acquire fewer assets and participate less in the formal financial system relative to their more financially literate counterparts (Ghirmai, 2010). The study, conducted in collaboration with the World Bank Jakarta office, is the first such comprehensive survey of financial literacy in the developing world. In Indonesia they find that financial literacy is indeed a powerful predictor of demand for formal savings, loans and insurance services (Cole et al, 2010).

Numerous academic studies have discovered the importance of financial literacy for various aspects of household's wellbeing and economic stability. It has been shown by Banks et al. (2009) that financial literacy has serious implications for wealth accumulation and portfolio choice. Moreover, several researchers stress that financial literacy has an effect on the level of participation in the formal financial market and stock market (Christelis et al. 2010). In the debt side, empirical studies reveal that lack of financial literacy may result in costly borrowing and high debt load (Lusardi et al, 2007). Finally, financial literacy has implications for overall economic and financial development and stability. Beck et al. (2007) demonstrates that financial literacy is correlated with economic development and affects it through three

channels; it increases stock market participation, results in more efficient savings behavior and as a result raises returns and attracts more investments into the economy. Conjointly, Bernanke (2006) points out that financial literacy helps to develop confidence in the economy and thus induces growth.

FUTURE RESEARCH AREAS

As per the review financial literacy gaining momentum in the recent years, as financial management have become increasingly complex. The unique nature of financial management calls for the corporates to have separate functional department for management of finance. The small and medium enterprises were also having specialized personals for financial management. For these specialized personals the level of financial literacy likely to be higher compared to the other peoples and they were able to make proper decision in terms of financial planning, acquisition and allocation of finance. In case of farming sector, the commercialization of Indian agriculture calls for the farmer to act an entrepreneur. They have to make right decision in production and marketing aspects. Agricultural finance has been an important input for successful crop production. Need for efficient farm financial management assumed critical importance. Financial literacy of farmer played a vital role in efficient farm financial management. Even though the quantum of credit increased over the year, the accessibility and proper utilization of credit was the major concern. One of the major reasons might be lack of financial literacy among farmers. It significantly affects the farm profitability and makes the farmer more prone to indebtness (Kishore, 2012). Since, none of the study has focused on assessment of financial literacy of farmer in India. An initiative should be made to assess the financial literacy of farmer and its impact on farm productivity.

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