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AN ANALYTICAL STUDY ON FINANCIAL LITERACY–MYTHS AND REALITIES

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Abstract: **The financial markets has seen dramatic change after liberalization phase and considered as the key pillar for the development of the financial system all over the world. Financial literacy means 'the possession of knowledge and understanding of financial matters. The financial literacy is worldwide acknowledged as an important element of the economic and financial stability and development. Financial education represents a lifelong process. The financial markets offer several opportunities not only for investor but also for the corporate. Today's financial services are becoming more accessible, financial market offers myriad of products with intricate features and services. The scope of financial education has widened from its pre-liberalization to the present day conditions of post liberalization, corporate era. The present study takes into accounts the different dimensions of financial literacy and education in India i.e. financial education its relevance, determinants and, role of regulatory authorities in India; its myths and realities. The study concludes that the strategy for improving financial well-being of individuals in India should be focusing the young investors.**

Keywords: **Financial Literacy, Financial Education, Financial regulation, myths & realities of financial literacy.**

1. INTRODUCTION

Integrated Global Financial market and changing financial objectives increased individuals' responsibility in managing their own finances and securing their financial future. Financial education and connected competencies of individuals are becoming more and more important because of the dynamic, fast developing, globally connected and complex financial markets. The financial needs of individuals are becoming more and more complicated and pretentious. Only those with the appropriate knowledge in the field of finances can sustain. Financial literacy is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests and how that person donates it to help others. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources.

Objective

1. To study Importance of financial literacy.

2. To identify determinants of financial literacy and education.

3. To study role of regulatory authorities in financial literacy

4. To analyze the myths and realities encompassing financial literacy.

2. RESEARCH METHODOLOGY

The design of research study is exploratory. The data used is secondary. I.e. data is collected from various sources such as surveys conducted by Financial institutions and regulators, research papers, journals etc.

Financial Education – It is "the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to

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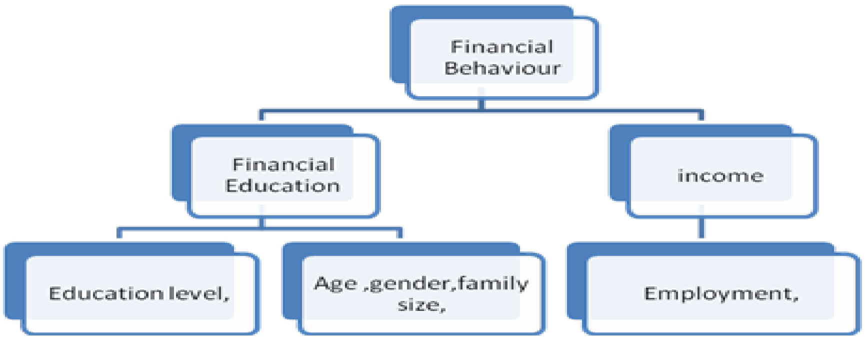
become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being."

Ben Bernanke (2011) highlighted the need for continuous updating financial literacy across all age groups because of the volatile nature of financial products and services as well as the changing needs and circumstances of individuals with time. He observed that exposing young people to financial concepts is particularly important as they are vulnerable to the temptations of taking excessive debt. The Ministry of Finance (GOI) established several institutes purely based on finance in order to meet the demand of global finance market. Indian Institute of Finance (IIF) founded in 1987 as a non-profit autonomous educational institution, to promote education and research in Finance. Indian Institute of Banking and Finance (IIBF) (formerly The Indian Institute of Bankers) was established in 1928. It is our strong conviction that, through an increased understanding of banking and finance, people can enjoy better, more secure and more satisfying life.

3. FACTORS (DETERMINANTS) OF FINANCIAL LITERACY AND EDUCATION:

The dependants of financial literacy are education and income of the individuals; the social factors like family size, family background, age have bigger impact. Religion, geography and nature of employment have a little impact on this.



(Determinants of financial Behaviors)

A) Gender(Male /Female)

Gender difference is having major impact on the financial literacy criteria ,earlier it was considered a matter of debate, whether a women is capable to take the financial decisions or not. Now status of women is improving in terms of educations as well as employment level and they are proving highly successful in managing the finance in almost all the sectors ranging from the household to the corporate world and government sector.

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 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 increase the effort toward 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 privet employees have better levels in comparison of government employees.

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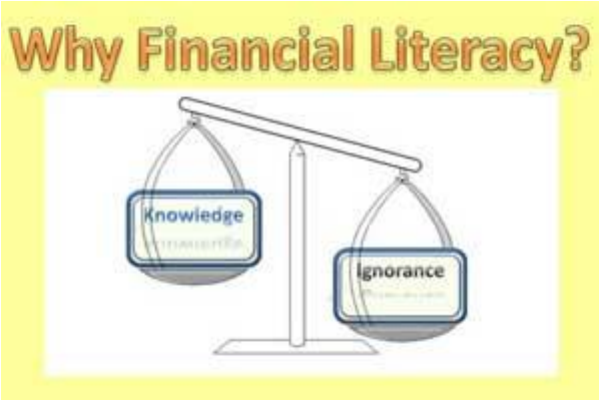
4. IMPORTANCE OF REGULATORY AUTHORITIES IN PROVIDING FINANCIAL EDUCATION



Reserve Bank of India: The Reserve Bank of India has undertaken a project titled "Project Financial Literacy". The Objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defense personnel and senior citizens.

Commercial banks: The role of banks is important as banks are the pillars of financial market. Commercial banks have initiated various measures for creating awareness about products through Counseling, Centers and Rural Self Employment Training Institutes on financial literacy.

SEBI the governing body of stock market India provides protection to the investors in stock market through rules. SEBI offers several programs to the youths regarding the knowledge in stock markets which covers the complete knowledge of different products.

IRDA'S Initiatives on Financial Education. IRDA has taken various initiatives in the area of financial literacy. Awareness programs have been conducted on television, radio and simple messages about the rights and duties of policyholders.

PFRDA Initiatives on Financial Education The Pension Fund Regulatory and Development Authority, India's youngest regulator has been engaged in spreading social security messages to the public. PFRDA's initiatives have become more broad-based with direct mass publicity on NPS – both as individual model through POPs and group models through Aggregators. PFRDA has issued advertisements in print media and electronic media through radio and television in vernacular languages as well.

National Centre for Financial Education (NCFE) is setup as part of NISM, with representatives from all financial sector regulators i.e. Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA) and Forward Market Commission (FMC).

5. ANALYSIS OF DATA AND FINDINGS

Myths

Financial education programmes based on the premise of just imparting knowledge rarely deliver impact unless they are backed by a suitable product, including the support to use the product.

This Note examines myths around the design of financial education programmes, and discusses the Framework for designing these programmes.

Myth 1: Poor people do not understand how to manage their money. There is increasing evidence that the poor are good financial managers. They manage cash flows so well that within their scarce and unpredictable financial stocks and flows, they are able take care of family's expenses.

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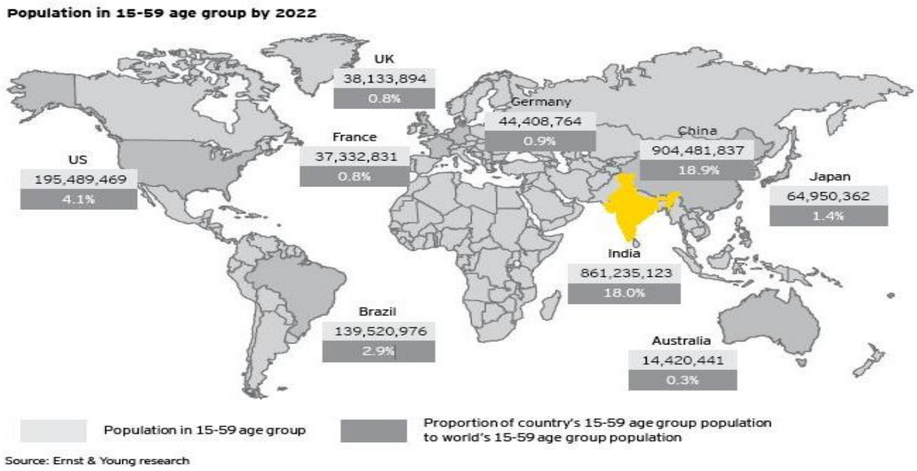
Myth 2: Poor people's lack of knowledge is the reason for low use of products. Poor people tend to use simple financial products like Deposits due to risk aversion.

Myth 3: Curriculum (theoretical) approaches work best. With introduction of new complex products, it is impossible to educate people with all products and intricate features of all products.

Myth 4: Introducing products with low margin will help retail investors. Though low margin products have been introduced; bankers are still incentivized to sell high margin products.

We all learn in schools where the education paradigms are based on curriculums. But this approach might not be the best when we aim to build capabilities of people to take sound financial decisions. Product -based, experiential financial education as part of a well-designed product marketing strategy is likely to be the way ahead for delivering financial education on a sustainable basis.

Reality:

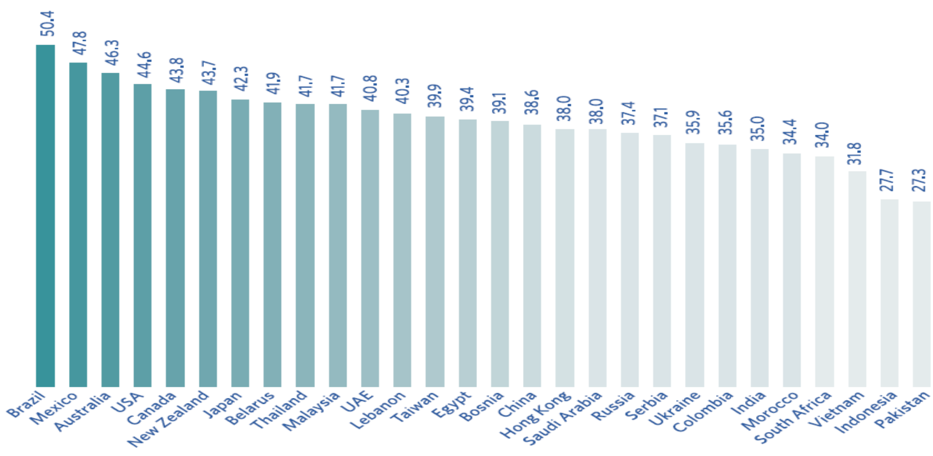


As per E&Y Report, India has the world's youngest work force with a median age way below that of China and OECD countries. Half the population of India was younger than 25 in 2010. It will change to half the population being under 28 in 2030, making India a very young country for the next 20 years. India is expected to grow at a rate of 8%, on an average, in the next 10 years. More than 700 million Indians are estimated to be of working age by 2022. Out of these, more than 500 million require some kind of vocational or skill development training.

Statistics:

1). Visa conducted a survey on international financial literacy between February and April of 2012 with 25,500 participants in 28 countries ,India ranks 22nd out of 26 countries in overall financial literacy.

Overall Country Ranking (Most financially literate, left to right.)



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2) As per the survey conducted by IIM Ahmadabad in 2013 the average financial literacy score for sample size 754 was 13.8, and was within the range of average scores of 12.4 to 15.1 reported by the OECD study for the 13 countries covered in its survey. India is well ahead of several countries that include South Africa, Armenia, Poland, Estonia, and Albania. Overall India fares relatively poorly as regards score in financial knowledge.

Overall, the level of financial literacy among the working young in urban India is similar

to the levels that prevail among comparable groups in other countries.

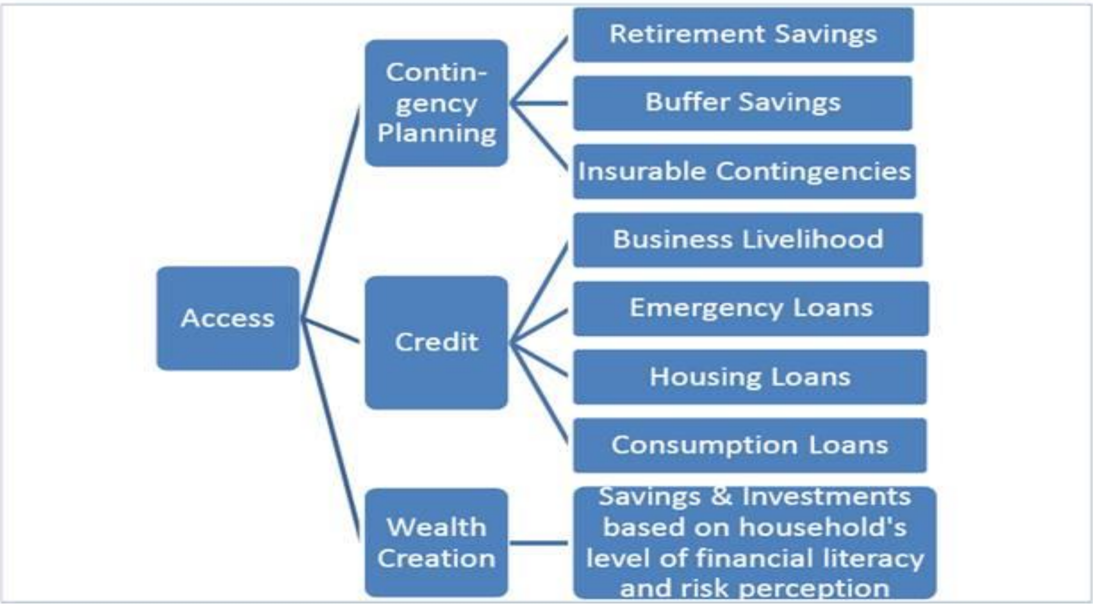
3) NCFE with Financial Stability and Development Council (FSDC) is conducting survey on Financial Inclusion and Financial Literacy, has appointed Mott MacDonald India, a global management and development consultancy organization, to carry out a nationwide baseline survey for assessing the state of financial literacy and financial inclusion.

This study covering approximately 75000 people across 35 states and UTs, would not only assess the present state of financial literacy and financial inclusion, but also yield benchmarks of core financial literacy and financial inclusion indicators at various socio-economic sub group levels and measure its rate of change on a continual basis to assess the efficacy of various financial education interventions including those under NCFE. It will also provide comparative analysis of states/ UTs and help evaluate India's standing at global level.

This study is very important for the purpose of research to understand and improve delivery of financial education which in turn will lead to a higher level of financial literacy and financial inclusion in India. This study is scheduled to be completed by August 2014. However survey results have not been published yet.

A report on financial sector reform chairman Dr Raghuram Rajan highlighted the steps taken to widen the scope of financial services, and products

Figure I: Household Access to Financial Services



Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. RaghuramRajan).

6. FINANCIAL INCLUSION

1) Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players .

2) Financial Inclusion and Financial Literacy are twin pillars, While Financial Inclusion acts from supply side providing the financial market/services what people demand,

3) Financial Literacy stimulates the demand side – making people aware of what they can demand.

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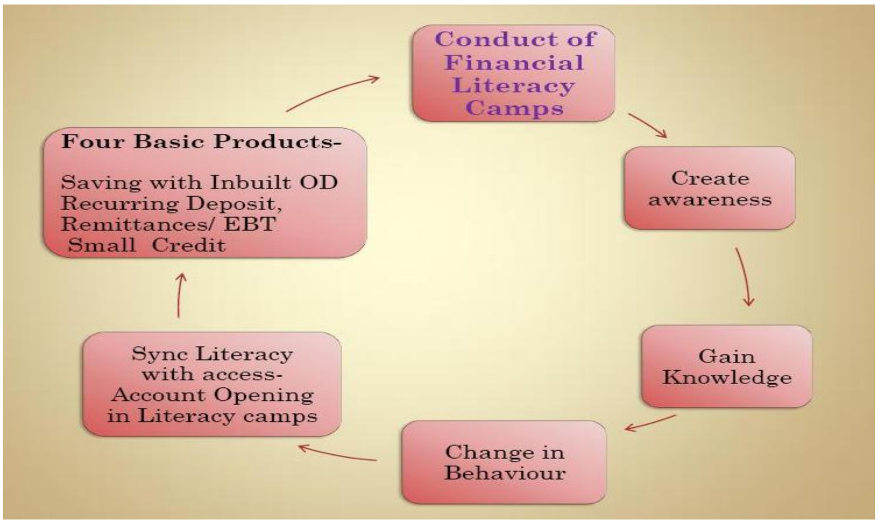
Financial Inclusion Initiatives:

- Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel, Introducing prime minister Jan Dhan Yojana Scheme.
- Separate program for Urban Financial Inclusion initiated.
- Roadmap for providing banking services – A structured way of covering villages. In the first phase villages with population above 2000 was targeted. The focus has now shifted to villages with population less than 2000.
- Financial Inclusion Plan for Banks - All domestic commercial banks - public and private sector have drawn a Board approved 3 year Financial Inclusion Plan (FIP) starting April 2010.
- Self-set targets - FIPs to be integrated with Business plan of the banks
- Banks advised to finalise their next 3 year FIP for the period 2013-16

Issues In Financial Literacy In India

1) A large population of illiterate population – requires basic financial knowledge
2) A large section of financially excluded population- need to be told of benefits of financial inclusion and also to be provided
3) A large growing segment of educated middle class-requiring financial education
4) A growing capital market with increasing retail participation-requiring financial education and consumer protection
5) A growing insurance market with participation of private players - need consumer protection and financial education
6) A large section of workers having no pension
7) A move from Defined Benefit Pension Schemes to Defined Contribution Pension Schemes
8) Hence, a large workforce need to be told about riskiness of various investment portfolios

Methodology – Building capacity



7. CONCLUSION

1) Financial literacy is a primary step for financial inclusion ,since introspection changes behavior which in turn makes people seek and receive financial services and products. Financial literacy can lead to financial wisdom in following way,
2) Ability to *manage* money not just deal with it.

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3) Ability to use skills to take wise decisions for the future.

4) A financially literate person can link her need for a product or service with those available within the banking system.

5) A demand for financial inclusion is created through an appreciation for what is available.

6) The formal banking system will find a financially literate person easier to approach.

7) A financially literate person will seek information about available services to operationalise financial decisions and hence access what is available.

8) The key is establishing an appropriate Business Delivery Model through the involvement of all stakeholders to make Financial Inclusion a reality.

9) Access to financial services and Financial Education must happen simultaneously.

10) It must be continuous and must target all sections of the population simultaneously.

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