



Importance of Financial Literacy in Financial Development

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Abstract

Financial literacy is having utmost importance in the current complex financial environment as the needs of human beings and the range of financial products have been becoming complex day by day. Everybody must be educated to take informed selections and right decisions on various financial matters. Financially literates can take good financial decisions and manage funds efficiently. Financial literacy is the ability and awareness, to use knowledge and skills to manage one's financial resources effectively for lifetime financial security. But most of the Indian population is financially excluded as they don't have financial awareness about various financial products and services which ultimately affects the economic and financial development of the country. People are reluctant to transact with formal financial institutions as they are unaware about the benefits attached with it. Govt has initiated various measures and directions to support financial literacy and to bring everyone under the formal financial stream.

Keywords: Finance, Financial literacy, Financial Inclusion, Banks.

Introduction

Financial literacy has been an issue in many countries including developed and westernized societies (Samy *et al.* 2008) ^[25]. Financial literacy is increasingly important in the current complex financial environment as the needs of human beings and the range of financial products have been becoming complex. *Lack of financial literacy put people into debt traps with their poor financial decision and choices* (Singh & Bansal 2017) ^[27]. Everybody must be educated to take informed selections and right decisions on various financial matters. This is the matter of too much concern for not only individuals but also for the financial wellbeing and proper functioning of financial markets. Financial literacy creates the ability to be financially responsible and the confidence in the individuals to manage their money and various financial risks effectively. It brings understanding about savings, investments and gives a positive attitude towards financial planning. Various experts in Economics, Finance and Money management emphasised the need for individuals to acquire the financial knowledge necessary to effectively manage the money matters otherwise inappropriate financial decisions can have long-term negative effects. The financial illiterate persons are more vulnerable to the damage caused by financial emergencies, excess debt and fraudulent schemes. There is a need of joint effort to achieve national financial literacy, as no single organisation or individual can achieve this goal of providing financial literacy for all. Earlier when a limited number of financial products and institutions were the key player in our financial system, deciding which financial product or service to select and how

to use them was not difficult task for an individual. Moreover no one bothers about financial matters as people had very limited financial needs and limited resources which were sufficient for their livelihood. Very few people had bank accounts which they just used for deposits and withdrawals. But now the entire scenario has been changed, now life is not that much simple and straightforward as it was before thirty forty years back. Now financial markets also have become very complex with the introduction of various complex financial services and products. This integrated financial world needs a good level of financial literacy for the individuals to make right and timely decisions for their well-being. But this is a challenging task for a common individual, as many studies have explored it as he has nominal command over various financial terms and concepts, simple financial numeracy, basic interest calculation and the impact of inflation and risk associated with his product etc.

Various studies show that the normally persons don't know even how to calculate compound interest & percentage and basically they don't have the required tools to work out the safe and economical financial outputs (Stephen Meier, Charles Sprenger), (Lusardi and Mitchell 2014) ^[10], (Annamaria Lusardi 2010) ^[13]. According to Lusardi *et al.* only 27% of young people possess basic financial knowledge and can do calculations of simple interest rates. There must be awareness among the persons of the financial concepts, risk, financial markets, banks, insurance, credit, share markets, mutual funds etc. Financially aware and literate persons contribute towards the economic growth and development of a country by creating competition among various providers of

financial products and services compelling them to introduce the innovative, effective, economical and timely financial products and services. Well literate persons do little or fewer mistakes in their various decisions and live a happy life without being a victim of the financial crisis rather explore the various available opportunities and optimum utilization of limited resources. *A fully rational and well-informed individual will consume less than his income in times of high earnings, thus saving to support consumption when income falls* (Lusardi and Mitchell 2014) ^[10]. Various financial service providers noted that persons with little banking experience are generally uncertain about what banks do with deposited money and how funds can be accessed. In many cases persons just open the bank accounts but do not use them as they don't have the basic knowledge that what a bank account serves to you or what you can avail from a bank. So an important challenge is there to build knowledge about banking, insurance and various other financial systems which play an important role among the persons to live a secured life.

Now these days consumers are not only left with to make a choice between two banks interest rates rather a big variety of financial products and services are offered by the banks and other financial institutions which carries different levels of risks and returns. So they will be at the risk of fraud if they are not aware about the all factors related to investments and savings. *Well-informed consumers, who can serve as their own advocates, are one of the best lines of defence against the proliferation of financial products and services that are unsuitable, unnecessarily costly, or abusive* (Lusardi and Mitchell 2014) ^[10]. In other words it can be said that people must be financial literate to face the challenges to decide which is better for them as per their need. Now banking system is growing at rapid pace as electronic transactions are quickly replacing the traditional methods as life becomes very fast. It comes the time of credit cards, debit cards, net banking, online payments and so many other value-added services which changed the whole scenario. Banks are becoming increasingly sophisticated in their outreach with latest products and services with endless marketing drives. So financial literacy or awareness is an essential survival tool for the developing countries to come out of the crisis and can be a stepping stone to put a nation out of poverty. Now it is well accepted phenomenon that financial education can improve financial literacy and also the financial behaviours (Jacobs, Hudson and Bush 2000)

Steps Taken towards Financial Literacy

RBI is quite eager to include financial courses at both school and college levels in different states of the country. With Financial Inclusion Drive of the RBI, it starts initiating financial awareness in all parts of India. RBI pointed out that financial literacy in all sections can help to minimise frauds and malpractices in the society. RBI has already started working on setting up 200 modal villages in India to bring complete awareness about banking activities and other schemes among villagers. In India the thrust of financial literacy is on rural areas. Literacy rates in rural areas are comparatively lower than urban areas. The demand for financial products mainly depends upon the investor awareness which further depends upon the literacy levels of the rural investors. Financial literacy enables investors to make an informed investment decision. In India, financial literacy gains even more importance as the literacy rate in the country is low and a large section of population is out of reach

of formal financial set-up. Regulators thus play an important role to create awareness among investors through financial literacy. This also includes providing awareness among the investors about the financial products. Regulators' initiatives include the following:

RBI has taken various initiatives for tackling demand side issues and for the objectives of financial literacy which includes:-

- Persuading State Governments for including Financial Education in the school curriculum.
- Advising Banks to setup Financial Literacy & Credit Counselling Centres in all districts.
- RBI has conducted outreach activities across the country focusing on the twin objectives of financial inclusion and financial literacy in which the Top management like Governor/Deputy Governors/Executive Directors of RBI directly participate.
- 160 remote unbanked villages selected by RBI for transformation into Model Villages characterized by 100% Financial Inclusion through ICT initiatives, leveraging on BCs and BFs.
- Project Financial Literacy-Publication of Comic Books, Setting up Multi-lingual Financial Education Website, Release of a Book titled 'I can do Financial Planning' on Financial Education, Essay Writing Competition and other events.
- Organizing Town Hall Events and release of films on Financial Literacy.
- RBI has also launched a financial information website in Hindi, English and 12 other regional languages that aim at teaching basics of banking, central banking and finance.
- Public sector banks could act as an important channel through which financial literacy could be generated in rural areas as they possess network and reach in the areas.
- Multi-lingual reading material is provided by RBI including comic books (Raju and Money Kumar series), educational games and these books are becoming quite popular among children.
- Various awareness programmes has also been started like films, skits, road shows, financial education stalls in exhibitions, education camps in remote areas, quiz and competitions, financial counselling and literacy centres.
- Banking ombudsman scheme has also started by RBI.

Conclusion

India a developing economy having great potential in its roots as people living in rural areas are more financially excluded with the least development of financial markets in rural sector. Rural households are still under the clutches of moneylenders and least concerned about the formal financial products and services. Urban people are too reluctant in investment matters. It is found that people are willing to transact with formal institutions but lack of information, confidence and too much formalities in banking transactions discourage them. Measures has been taken by Government and other regulators to literate the masses to make them part of financial inclusion but still more is required in this direction at the ground level. Counselling about debt and credit through local persons should be encouraged more to advice people on financial grounds according to their needs to build a strong financially stable nation. The pattern of savings of rural customers is to be changed to bring their exposure to other than traditional banking services by bringing a friendly atmosphere with the help of banking awareness programs and bringing financial literacy among rural masses as financial

literary and aware persons can take sound financial decisions while having less prone to frauds and illegal financial cyber-attacks. Banks should put emphasis on customer satisfaction with increased financial support in terms of financial literacy, awareness, and ease of access towards formal banking. Now, there is a time to move towards financial integration from financial inclusion.

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