Financial Literacy In India – A New Way Forward

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Abstract
The concept of Financial Literacy can be presented as a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being. The study is made to put light on financial literacy, its need and importance in the current economic situation in India. It will certainly help in understanding the basic need for being financially literate or educated to sustain, survive and compete in this changing dynamic socio-economic environment. It may prove useful for financial institutions involved in providing financial services, investors, Government at center and states, academicians, general people and most importantly to the research scholars undergoing their research on Financial Education, Literacy and Inclusion related areas. The primary objective of the study is to explore the need and importance of financial literacy and to put light on different types of financial services available at present time from different financial institutions with special reference to banks and insurance companies in India. It is purely a descriptive study. Data are collected from secondary sources especially from Internet Sources, Research Papers, Journals, Periodicals; Conference Proceedings and from different books. Concepts are presented in a lucid manner to satisfy the primary objective of the study. Financial literacy can be considered as the need of the hour. Financial Inclusion can be fruitful in true sense if people can understand the benefits of financial services provided by Government and Financial Institutions from time to time. It's not enough to only be literate, one is to be "Financially Literate".

Keywords: Financial Literacy, Financial Institution, Financial Services

Introduction

Safety remains the prioritized criteria for most of the people planning to save money for their future. No one wants to loss their hard earned money because of a wrong choice. Hence, it becomes essential to have minimum knowledge, awareness and idea about financial services and related issues. It is required to educate people and create awareness in the society about finance. This will result in making people literate about financial aspects.

Rationale of the Study

The study is made to put light on financial literacy, its need and importance in the current economic situation in India. It will certainly help in understanding the basic need for being financially literate or educated to sustain, survive and compete in this changing dynamic socio-economic environment. It may prove useful for financial institutions involved in providing financial services, investors, Government at center and states, academicians, general people and most importantly to the research scholars undergoing their research on Financial Education, Literacy and Inclusion related areas.

Objective of the Study

The primary objective of the study is to explore the need and importance of financial literacy and to put light on different types of financial services available at present time from different financial institutions with special reference to banks and insurance companies in India.

Research Methodology

It is purely a descriptive study. Data are collected from secondary sources especially from Internet Sources, Research Papers, Journals, Periodicals, Conference Proceedings and from different books. Concepts are presented in a lucid manner to satisfy the primary objective of the study.

Concept of Financial Literacy

The concept of Financial Literacy can be presented as a combination of financial awareness, knowledge, skills, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being (OECD, 2012). Financial Education is the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and through information, instruction and/or objective advice, develop the skills and confidence to 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 (OECD, 2005). It is clear from the above lines that Financial Literacy and Education are two interrelated concepts. One can become financially literate by getting proper financial education. Financial literacy helps the people in learning the fundamental benefits of financial services. It empowers them to take proper financial decisions. Financial education helps in achieving financial literacy which ultimately resulted in financial well being of people. Developed financial awareness may stand useful in reducing financial exploitation of people by the private money lenders and others.

Scope and Importance of Financial Literacy

India is a developing country. We have witnessed significant growth in economy even in the post Covid – 19 Era. It represents the growth potential of India as a country and its probable global dominance in the future time. Huge population and market space has been attracting foreign investors and MNCs towards India in last few years. India has regarded as a hub for Information and Communication Technology in the global corridor. International Trade Policy of Indian Government paved the way for International Investors to establish their business in India. It helps our country to be treated as one of the most promising and quickly emerging economies in the international circuit. Despite of these splendid achievements, there are still some business houses mostly small and medium scale industries within the country aren't able to succeed in this highly competitive environment. Financial mismanagement and poor financial planning has remained always a challenge for the Indian business firms. Poor financial awareness of potential customers in the country triggered the risk factor too. As per the census report of 2011, with a total of 74.04% of the literate population in our country, we are hardly managed to get the fundamentals of financial literacy. If a report published from the courtesy of Global Financial Literacy Excellence Center is to be believed, then, there are only 24% of the Indian adult population is financially literate. It is miserable in comparison to other developing and developed countries across the globe. Reasons are to be identified for such poor penetration. Inter-state disparities, lack of formal training and awareness may be treated as the most common issues responsible for such poor penetration of financial literacy in India.

Financial Literacy helps in developing lives of people with effective financial planning and decisions. Following points put light on the major importance of financial literacy:

Budgeting

Most of the family belonging to middle income group level in our country is starving very hard to manage their household expenditures. There is a common pattern followed by many popularly termed as "Family Budget". Budgeting represents the technique or process of planning and managing money and finance. An individual possessing adequate knowledge of finance may prepare proper financial plans and budgets as per his or her income.

It helps him/her to take better decisions to save or invest funds safely. Awareness and knowledge of finance helps a person being financial literate. Financial literacy helps that person in framing personal financial plans, maintaining a track record of expenses, effective use of money and many other financial aspects. In a nutshell, financial literacy enables an individual to learn the concept of budgeting and its applications up to certain extent.

Debt

People usually borrow money from family, friends and relatives from time to time to cater the urgent and unavoidable financial need. In case of need for large amount of funds, one may opt for bank or any other financial institutions providing affordable loan facilities. These all are the constituents of "Debt". It's a common perception among people that Debt is a negative indicator of wealth. Taking loans are generally seen from a general view point as scarcity of funds or poor financial conditions. But Debt never represents any such concept or propositions. One may take loan to meet its financial need that may be for any reasons. Personal Debts may be taken for purchase of Properties both Movable and Immovable, social functions and many other constructive work. But sometime, people may go for loans for unnecessary expenditures which can be avoided. Excessive use of credit cards, unsecured short term loans from private financial institutions and other financial offers readily available in the financial market are mostly enhanced the financial burden of people in the absence of adequate knowledge of finance and financial services. These issues can easily be addressed with growing volume of financial literacy.

Saving

Savings remains always in the priority list of the earning member of a family. It is generally intended for the financial wellbeing of family from the unforeseen perils and hazards. An individual should have sound financial knowledge to take an effective decision as regards to his/her future financial planning. Proper financial planning will be useful for him/her to develop their long term wealth. Saving is a very good habit, but it should be kept at the appropriate and legitimate place. Financial literacy will help in developing fundamental knowledge of general people about finance and related services. It will ultimately help them in saving their money wisely to get safe and better return.

Investing

People are looking forward to create money from the surplus amount left with them after meeting their personal and family requirements. Investment is one of the commonly followed practices of people to use their funds to fetch better returns. A small wrong decision in relation to investment may cause huge amount of loss to the investors. One should have sound knowledge about financial transactions, services, terminologies and most importantly the investment procedure before investing. There are number of people getting trapped by fake agents and invested their hard earned money without having any sorts of knowledge about their investment. Fraudulent schemes targets and exploits the group of financial illiterate people. Financial literacy is a viable solution for addressing these issues.

Pre-Requisites of Financial Literacy

There are number of pre-requisites of financial literacy. Levels of Education along with Numerical & Communication ability are considered as the most important prerequisites of making people financially literate in the society.

Level of Education

Financial Literacy should be a part of education system both at School and Higher Education Level. It's essential to educate children from an early age about the fundamental benefits of finance and related services. It helps them in knowing the features, benefits and most importantly applications of these financial services in future. There are some basic financial transactions like preparation of bank drafts, deposit of cash at bank counter, filling in the deposit slips, withdrawing cash from banks, ATM counters, availing the POS transactions, payment through wallets and Apps available in Smart Phones. Some of these basic financial service facilities are to be taught to the school and college going children as a part of their curriculum. Students attaining the age of 18 should be financially literate. This will help them in avoiding faulty financial deals, agreements, frauds and other form of monetary exploitations in future. Level of Education always remains the prerequisite for spreading awareness among people about features and benefits of finance and financial services. Education will decide the path where an individual is leading towards. An educated individual can be proved his or her worth as a better financial literate with respective knowledge and level of understanding.

Numerical and Communication Ability

Finance is not a concept exclusively based on Theory or Philosophy, rather, it's more practical and application oriented. Mere understanding of the concepts may not always help an individual to take a proper financial decision. It consists of different facts and figures. Ability of an individual to understand the numerical and communicating the same in an effective manner remains the key of financial literacy process. Numerical and communication ability of a person helps him or her in learning finance and related concepts more easily and conveniently. Hence, it is generally treated as the most important pre-requisites of financial literacy.

Various Financial Institutions

Financial Services can be defined as "activities, benefits and satisfactions connected with the sale of money that offers to users and customers, financial related value". In the post liberalization era, financial service emerges as an important source of finance to meet the financial requirements of individuals and organizations. With the growing economy, the role and relevance of financial institutions like Banks, Insurance Companies and NBFCs increases up to a large extent. The overall performance of these organizations in terms of turnover and profit enhances rapidly and which ultimately affect the economy of the country. Banks, Insurance Companies and Post Offices are the most popular financial institutions providing financial services in our country.

Commercial Banks

Commercial banks are established with an objective to meet the short term financial requirement of traders and business houses and to earn profit. They have designed their fee structure and interest rate accordingly for making money for stakeholders. This characteristic of commercial banks contrasts with the primary function of credit unions. Credit unions are not for profit making organizations meant to help individuals and businesses houses to manage their money. Commercial banks make money by charging clients who use their services and borrow their funds. Credit unions charge for bank accounts and loans as well, but they charge less because their fee structure is designed to cover their costs, rather than also making a profit.

Insurance Companies

Insurance is regarded as a process that protects the life and properties of people from several types of risks and uncertain events. It provides a cover to overcome these issues in the form of financial support or assistance to the insured. It is regarded as one of the most important form of risk transfer. Insurance is a form of risk management basically used to provide protection against the risk of a contingent, uncertain loss. It may be defined as an equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. Insurance company refers to a company that sells the insurance to an insured or an individual. Such an insured or an individual is termed as policyholder for the entity buying the insurance policy. Insurance is a contract of indemnity under which insurance company or insurer agrees to pay a certain sum of money to compensate loss caused by the happening of some uncertain event against some periodical payments known as premium. The insurance rate is a factor utilized to ascertain the amount of premium to be charged for insurance coverage.

At present, the insurance sector shows a growing trend in the country as well as in the global context. Globally, the share of life insurance business in total premium was 55.55 per cent. However, the share of life insurance business for India was very high at 79.12 per cent while the share of non-life insurance business was small at 20.88 per cent. In life insurance business, India is ranked 11among the 88 countries, for which data is published by Swiss Re. India's share in global life insurance market was 2.08 per cent during 2014. However,during 2014, the life insurance premium in India increased by 1.0 per cent (inflation adjusted) when global life insurance premium increased by 4.3 percent. At the end of March 2015, there are 53insurance companies operating in India; of which24 are in the life insurance business and 28 are in non-life insurance business. In addition, GIC is the sole national reinsurer.I.3.2 Of the 53 companies presently in operation,eight are in the public sector - two are specialised insurers, namely ECGC and AIC, one in life insurance namely LIC, four in non-life insurance and one in reinsurance. The remaining forty five companies are in the private sector.

Life insurance industry recorded a premium income of Rs 3,28,101.14 crore during 2014-15 as against Rs 3,14,301.66 crore in the previous financial year, registering growth of 4.39 per cent (9.44 percent growth in previous year). While private sector insurers posted 14.32 per cent growth (1.33 percent decline in previous year) in their premium income, LIC recorded 1.15 per cent growth (13.48 percent growth in previous year). While renewal premium accounted for 65.46per cent (61.72 per cent in 2013-14) of the total premium received by the life insurers, first year premium contributed the remaining 34.54 per cent(38.28 per cent in 2013-14). During 2014-15, thegrowth in renewal premium was 10.72 per cent(7.85 per cent in 2013-14). First year premium registered a decline of 5.82 per cent in comparison to a growth of 12.08 per cent during 2013-14. During 2014-15, life insurers issued 259.08lakh new policies, out of which LIC issued 201.71lakh policies (77.86 per cent of total new policies issued) and the private life insurers issued 57.37lakh policies (22.14 per cent of total new policies issued). While the private sector registered a decline of 9.79 per cent with a slight improvement(against the decline of 14.11 per cent in 2013-14) inthe number of new policies issued against the previous year, LIC registered a significant decline of 41.55 per cent (6.17 per cent in 2013-14) in the number of new policies issued.

Postal Services

The Department of Posts (DoP) is the only department in India has been providing uninterrupted postal services to all the citizens of the country since its inception. It has contributed significantly towards revamping country's socio-economic conditions. It has remained the most commonly available and used medium of communication among the Indians. It maintains the connectivity between people through its continuous services at different locations across the country's map. Besides the basic postal services, Indian Post has been providing different types of financial services. It has attempted to facilitate financial inclusion by delivering mails, accepting deposits under Small Savings Schemes, providing life insurance cover under Postal Life Insurance (PLI) and Rural Postal Life Insurance (RPLI) and providing retail services like bill collection, sale of forms, etc. The DoP also acts as the representive of Central Government of India in providing different services to the citizens such as Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) wage disbursement and old age pension payments. DoP is presently operating with more than 1,55,000 post offices located at different corners of the country.

Types of Financial Services

Financial Services provided generally by number of institutions like banks, financial institutions, merchant bankers and NBFCs. These services are broadly classified into two parts; (a) Asset Based Services and (b) Fee Based Services.

Asset or Fund Based Services

The Asset or Fund Based Services provided by banking and Non-banking Financial Institutions are described below:

Equipment Leasing or Lease Financing

Leasing becomes an emerging source of finance for business organizations in the last few years. It is defined as an arrangement of funds which provides the option of using and controlling the assets without purchasing or transfer of ownership. It is regarded as a form of procuring assets on rented basis for a specific period of time. This concept was introduced by First Leasing Company of India Limited in 1973 only. After that, industrial sectors and large scale companies utilize the option of lease financing in the country. Financial Manager of a company is to identify the sources of finance for investment in assets. Companies may prefer the option of procuring assets for rent or lease without owning the same. Companies have to pay lease rental in the same way like interest on debt funds. So, lease financing is considered as debt financing by some of the financial analysts. There are no specific legal rules and regulations to control and regulate the lease financing.

Hire Purchase and Consumer Credit

Hire Purchase is used as an alternative source of equipment financing. It refers to a transaction where goods are purchased and sold on the following terms:

- The payment will be made in installments
- The possession of the goods will be given to the buyer immediately
- The ownership of the properties will remain with the seller or vendor till the payment of last installments
- The seller can repossess the goods in case of default in payment of any installment and
- Each installment is considered as hiring charges till the last payments is paid.

Consumer Credit consists of all asset based financing plans offered to individuals for obtaining consumer goods or durables. In this process, consumes are allowed to purchase the assets on payment of a portion of the total price as down payment at the time of delivery and the rest amount are paid along with the interest. These types of consumer services are provided in India by banks, and financial institutions for variety of products like Cars, Scooters, VCRs, TVs, Refrigerators, Washing Machines and Computers etc. There are no specific legal regulations imposed on consumer credit in India.

Bill Discounting

Discounting of bill is an option used as a short term financing option by people and business firms. This type of financing is mostly used by financial institutions or companies to diversify the business activities. At present, Reserve Bank of India put some restrictions on the discounting services provided by the banks to their clients. According to Negotiable Instruments Act 1881, A bill of exchange is an instrument in written containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only, or to the order of a certain person or to the bearer of the instrument. Bill of exchange may be regarded as a promise made unconditionally by the debtor or customer to pay the amount due arises from the credit sales to the bearer of the document on a particular date specified. If the drawer has urgent requirement of cash, he can get the bill discounted from bank. Bank receives the bill and pays the amount to the drawer after deducting some discount. Bank collects the money due on the date of maturity from the drawee. The discount charged is treated as a loss for the seller or drawer of the bill. Discounting of bills is treated as one of the most trusted form in which a bank lends without any collateral security.

Venture Capital

Venture Capital refers to a type of financial investment made in a high risk project for earning a high rate of return on such investment. This concept is not a new concept but revamps with the introduction of liberalization policy in India. This type of financing is preferred by those companies who cannot afford to risk their capital. Venture capital financing companies provides required level of finance as risk capital to their client organizations. This process of financing involves higher volume of risk. It is strictly controlled and regulated by rules framed by Government of India. As per government initiatives, there are number of venture capital agencies operate in the market as an important medium of financing proposition in meeting the venture capital need. These are Venture Capital Scheme of IDBI, ICICI, Risk Capital and Technology Corporation Ltd. (RCTC), Infrastructure Leasing and Financial Services Ltd. (ILFS), Stock Holding Corporation of India Ltd. (SHCIL) and The Credit Rating Information Services of India Ltd. (CRISIL).

Housing Finance

Housing Finance scheme was provided by the government of India till the late 80s. In the year 1988, National Housing Bank was established by RBI as a fund based financial service in the country for the purpose of meeting the financial requirements of people for making their own houses. NHB is operating as an apex body or financial institution owned completely by Reserve Bank of India for providing housing finance to the people in the country. At present, there are number of financial institutions or companies deal in providing housing finance. These are HDFCs, SBIHF, Canfin Home, LIC Housing Finance, Ind Banking Housing, Citi Home, Gujarat Ambuja and ICICI Housing etc. These organizations develop different schemes for meeting the financial needs of individuals, corporate, builders, promoters and other interested parties.

Insurance Services

Insurance is regarded as a process that protects the life and properties of people from several types of risks and uncertain events. It provides a cover to overcome these issues in the form of financial support or assistance to the insured. It is regarded as one of the most important form of risk transfer. Insurance is a form of risk management basically used to provide protection against the risk of a contingent, uncertain loss. It may be defined as an equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. Insurance company refers to a company that sells the insurance to an insured or an individual. Such an insured or an individual is termed as policyholder for the entity buying the insurance policy. Insurance is a contract of indemnity under which insurance company or insurer agrees to pay a certain sum of money to compensate loss caused by the happening of some uncertain event against some periodical payments known as premium. The insurance rate is a factor utilized to ascertain the amount of premium to be charged for insurance coverage. In India, there are number of companies provide both life and non-life insurance products in the market for meeting the needs and wants of consumers.

Factoring

Factoring is a source of generating short term finance through accounts receivables offered by commercial banks. Today the commercial banks provide factoring service to their customers. It is very much helpful in the development of trade and industry as immediate cash flow and administration of debtors' accounts are taken care of by factors. This service is again provided only by a separate subsidiary as per RBI regulations. Balance sheet is a statement of assets and liabilities on a given date. In India, banks have to publish their balance sheets according to the preformed i.e., 'Form A' given in the III schedule of the Banking Regulation Act, 1949. The study of the balance sheet along with its profit and loss account reveals its financial soundness. A customer has to carefully study these statements to choose his banks. The combined balance sheet of all banks in the country reveals certain economic trends.

Fee Based Financial Services

There are number of Fee based financial services provided by financial institutions such as Merchant Banker, Credit Rating Agency and Stock Broking Organization.

Merchant Banking

The commercial banks provide valuable services through their merchant banking divisions or through their subsidiaries to the traders. This is the function of underwriting of securities. They underwrite a portion of the Public issue of shares, Debentures and Bonds of Joint Stock Companies. Such underwriting ensures the expected mini mum subscription and also convey to the investing public about the quality of the company issuing the securities. Currently, this type of services can be provided only by separate subsidiaries, known as Merchant Bankers as per SEBI regulations. Grindlays Bank was the first merchant banking division in 1969 in India with an intention of undertaking management of public issue and financial consultancy. It was also followed by other foreign banks.

Credit Rating

Credit Rating is the feedback or opinion shared by the rating agencies about the ability and willingness of the issuer of a debt instrument to generate funds. These agencies are giving some rankings or grades to the business firms on the basis of their financial and operational strength. It helps the investors, corporate houses, banks and financial institutions. Such rankings influence the decisions of the investors on investing in the debt instruments issued by companies. Investors are always in a position to evaluate the strengths and weaknesses of the companies issuing debt securities in the market for raising funds. A good rating helps the companies to attract more investors. It helps the new entrant in the market to fetch attention of investors with their effective rating issued by credit rating agencies. These rating systems also help banks and other financial institutions at the time of taking decisions regarding lending and investment strategies. In India, there are three major credit rating agencies operated:

- CRISIL (Credit Rating Information Services of India Ltd.)
- ICRA (Investment Information and Credit Rating Agency of India Ltd.)
- CARE (Credit Analysis and Research in Equities)

Stock Broking

Stock Broking is performed at the stock exchange. In the earlier days, stock broking were being supervised by the Ministry of Finance under the Securities Contracts Regulation Act (SCRA). Later, SEBI was set up to ensure that stock exchanges perform their self regulatory role properly. Since then, stock broking has emerged as a professional advisory service.

Conclusion

Financial literacy can be considered as the need of the hour. Financial Inclusion can be fruitful in true sense if people can understand the benefits of financial services provided by Government and Financial Institutions from time to time. It's not enough to only be literate, one is to be "Financially Literate".

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