



FINANCIAL LITERACY: AN OVERVIEW OF CURRENT LITERATURE AND FUTURE OPPORTUNITIES

Vibhuti Shivam Dube

Ph. D Research Scholar, Institute of Management, Commerce and Economics (IMCE), Shri Ramswaroop Memorial University, Barabanki, Uttar Pradesh, India

Dr. Pradeep Kumar Asthana

Assistant Professor, Institute of Management, Commerce and Economics (IMCE), Shri Ramswaroop Memorial University, Barabanki, Uttar Pradesh, India

ABSTRACT

KEYWORDS:

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Financial Literacy is a term which is a combination of financial knowledge, attitude and behaviour which helps an individual to take sound financial decisions. With the growing financial inclusion drives to include the financially excluded persons and with the expansion of financial markets financial literacy has become a hugely significant issue. This paper reviews, compares and analyses studies conducted on Financial Literacy on International Platform, in Asia and in India to determine areas of both commonality and inconsistency. As a result of this analysis, the paper presents recurrent themes that could be extended, research gap and potential new areas for research in financial literacy.

INTRODUCTION

With the widespread growth of financial transactions and expansion of the financial markets has ultimately resulted into the immense growth of saving and investment avenues which has led to the growing importance of financial literacy. Financial literacy is recognised as a core skill that helps an individual to take competent financial decisions in the complex financial landscape. Financial literacy is defined as “Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” Governments all around the globe are taking initiatives to increase the financial literacy level for which they are taking different policy measures in imparting financial education.

This paper reviews, compares and analyses studies conducted at International Platform, in Asia and in India to determine areas which are identical and different. As a result of this analysis, the paper presents recurrent themes that could be extended, together with potential new areas for financial literacy research.

IMPORTANCE OF FINANCIAL LITERACY

1. **Significant role for financial inclusion and consumer protection:** Financial Literacy plays a crucial role for financial inclusion and consumer protection. Dr K C Chakrabarty, Deputy Governor

of the Reserve Bank of India in 2013 remarked that financial inclusion and consumer protection are the two sides of the same coin financial literacy until and unless each and everyone is not financially literate targets cannot be achieved.

2. **Involvement in Financial Market:** At the individual level an individual having knowledge of different financial avenues available in the market financially literate have an active involvement in the financial market.
3. **Understanding governmental financial policies:** A financially literate person can understand the governmental financial policies more wise and in a more efficient manner which is also an important factor for financial literacy.
4. **Cope up with cyclical changes of market:** A person well versed with the basic knowledge regarding the financial market and financial instruments available in the market having basic financial knowledge of the markets will tackle with the cyclical changes in the market more effectively.
5. **Aware about various sources of finance:** One of the foremost importance of financial literacy is a financially literate person has the knowledge about both the traditional as well as the modern investment avenues in which he can wisely invest money.

OBJECTIVE AND METHODOLOGY

The objective of this study is to review and summarize recent studies on financial literacy and related issues. Recent studies covering of 2012-2016 were first collected from journal, working papers, proceedings and thesis. The collected studies then classified under three research themes namely: international financial literacy research, financial literacy research in Asia and financial literacy research in India. Finally, each paper was reviewed separately and presented chronologically under each theme. Finally the results are discussed in a ways draw conclusion and directions for further studies.

INTERNATIONAL FINANCIAL LITERACY RESEARCH

(A) In 2012 “Visa’s International Financial Literacy Barometer” the survey was conducted in 28 countries of the world to know the strength and weaknesses of financial education worldwide in order to identify the opportunities for improvement in the financial education in the world scenario. The study was conducted in the countries comprising Mexico, Brazil, Serbia, Bosnia, Lebanon, USA, Belarus, Australia, New Zealand, Egypt, Saudi Arabia, UAE, Canada, Russia, Thailand, Ukraine, Malaysia, Taiwan, Pakistan, Hong Kong, Colombia, Morocco, India, China, Vietnam, South Africa, Japan and Indonesia. Visa conducted survey between February and April in 2012 on around 25,500 participants in 28 countries asking five questions:

- Do you have and follow a household budget?
- How many months worth of savings do you have set aside for an emergency?
- How often do you talk to your children ages 5-17 about money management issues?
- To what extent would you say that teenagers and young adults in (Country) understand money management basics and are adequately prepared to manage their own money?
- At what age do you think governments should require schools to teach financial literacy to children, so that they can better understand money management issues?

The findings from the study suggest that:

- Chinese respondents were the best in savings the Chinese respondents at an average saves 3.9 months of expenses.
- Mexico and Brazil topped the list where parents talk to their kids about money frequently. The survey result shows Mexicans talk to their kids at least 41.7 days a year.
- The study reveals that Brazilian respondents believe that financial education start at the earliest with most in favour of that government should require schools to start provide financial education when children are 9 years old.
- Whereas in U.S. average age when people feel government should start kids learn about money was 11.9 years.

(B) A recent study by Leora Klapper, Annamaria Lusardi, Peter Van Oudheusden (2014) on “Financial Literacy around the World: Insights from the S&P Global FINLIT Survey” on more than 1,50,000 nationally representatives aged 15 years and above on more than 150 economies of the world shows that just 1-in-3 adults shows an understanding of basic financial concepts. Although the

results shows financial literacy is higher among the wealthy, well educated respondents and those who use financial services, it is clear from the survey results that billions of people are unprepared to deal with rapid changes in the financial landscape. Credit products, many of which carry high interest rates are becoming more readily and easily available. Governments all around the world taking initiatives to increase financial inclusion by boosting access to bank accounts and other financial services but, unless and until people have the necessary financial skills, these opportunities can easily lead to high debt, mortgage defaults, or insolvency. This is especially true for women, the poor and the less educated—all of them suffer from low financial literacy and are frequently the target of government programs to expand financial inclusion programmes in their respective economies. Policymakers all around the world should consider first providing specific financial literacy training to vulnerable groups of the economy such as women, the poor population and adults approaching retirement.

(C) Alberto Montagnoli, Mirko Moro, Georgios. A. Panos and Robert E Wright of University of Strathclyde, Glasgow (2016) “Financial Literacy and Attitudes to Redistribution” points out on how financial literacy plays a major role in shaping individuals’ preference towards government’s redistribution policies in the Great Britain. The author concludes and makes the implication that the significance of financial literacy in modern economies cannot be overemphasized. Financial literacy has a clear public good element as it is connected with macro level financial stability. The analysis also predicts that to improve numeracy and literacy in this can lead to lower demand for redistribution. The author also concludes that the individuals who are more financial literate are less likely to report preferences in support of the redistribution.

FINANCIAL LITERACY RESEARCH IN ASIA

(A) Shawn Cole, Thomas Sampson, Bilal Zia (2009) “Financial Literacy, Financial Decisions, and the Demand for Financial Services: Evidence from India and Indonesia” in the study made here the author raises the questions regarding Why is demand for formal financial services low in emerging markets? Here in this study the author argues that due to limited cognitive ability and financial literacy suppressed demand. And in the second view states that demand is logically low because formal financial services are expensive and are relatively low value to the poor. Here the author finds that financial literacy program has no effect on the state of opening bank savings account in, but do find any decent effect on uneducated and financially illiterate households while in contrast of it the study also shows that small subsidy payments have a larger effect on opening savings account and these payments are more cost-effective than financial literacy training though it does not take into account any primary support or benefits of financial education.

(B) Naoyuki Yoshino, Peter J. Morgan, and Ganeshan Wignaraja (2015) in a working paper series of Asian Development Bank Institute on “Financial Education in Asia: Assessment and Recommendations” made a study for promoting financial education in Asia. In the study the authors argues that the advantages of investing financial education is of considerable importance. The data for the study indicates low financial literacy in selected Asian

countries. The paper argues that the scope of financial products needs to be enlarged and financial education programs at the national level, central banks level, regulators, and private sector need to be consolidated. The author makes the remark that the Asia's experience in the area of financial education is limited but believes that there are significant potential gains that are to be achieved from more real policy efforts in this region. The International experience in the field of financial education also offers several valuable lessons for promoting financial education.

(C) Bharat Singh Thapa and Surendra Raj Nepal (2015) "Financial Literacy in Nepal: A Survey Analysis from College Students" The study here is made by the authors in the form of survey of college students to examine the financial literacy and the impact of demographic, educational and personality features on financial literacy. The result of the study shows that most of the students have basic level of financial knowledge but the students lack in understanding credit, taxes, share market, financial statement and insurance. The study concluded that the college students have a basic level of financial knowledge. However the study also reveals that the overall level of financial knowledge of the students is affected by some of their demographic, educational and personality features.

FINANCIAL LITERACY RESEARCH IN INDIA

(A) Job Joseph and Dr. M. Maharajan (2012) conducted a study entitled "Financial literacy of Economically Marginalised people in Kerela" to measure the overall financial literacy of economically marginalised people with the key demographic profile and to suggest measures to improve financial literacy of the marginalised people. The results of the study concluded that the:

- Overall financial literacy of marginalised people is excellent as only 4.7% of the marginalised people are financially excluded.
- Among the 95.3 financially included categories, 39.3% uses one formal source while 44% uses two formal sources and 12% use three or more formal sources for their financial dealings.
- This higher percent of financial literacy can be belongs to the presence of Self Help Groups in Kerala and also the highest general literacy level of 93.91%.
- Financial literacy of the marginalised people is associated to education and income which ultimately means that raising financial education and family income will result in improved financial literacy.

(B) Prof. Sobhesh Kumar Agarwalla, Prof. Samir Barua, Prof. Joshy Jacob and Prof. Jayanth R. Varma (2012) of Indian Institute of Management Ahmedabad "A Survey of Financial Literacy among Students, Young Employees and the Retired in India" examines the financial literacy level on the basis of young working adults, retired and students in India. In the study the employed and retired are studied on financial knowledge, behaviour and attitude. The students are studied only on the basis of financial knowledge as they have not direct exposure to household finance. The study conducted on nearly 3,000 respondents across the country. The conclusion derived from the study shows that financial knowledge in India is very low even by

low global standards. The reason for this is due to poor numeracy and certainly due to poor performance of Indian primary education system as shown in other studies also. The poor financial knowledge of students which at large depends upon learning outcomes contrary to direct experience in financial matters shows poor outcomes of academic.

(C) Harsha Vijay Kumar Jariwala (2013) in her research thesis "To Study the Level of Financial Literacy and Its Impact on Investment Decision – An In-Depth Analysis of Investors in Gujarat State" states that the Financial literacy has become increasingly important stiff competition and more complex products in the financial service industry leave many people ill- equipped to deal with choices they need to make. In India policymakers have identified financial literacy as a necessary life skill. The study made here focuses on the existing financial literacy level of retail individual investors in the state of Gujarat. The study made conclusion that:

- The majority of the investor possesses lower level of financial literacy this shows that all investors do not understand the basics of investments and its calculation.
- Majority of the investors are less financially literate in basic financial literacy and advanced financial literacy and do not understand important concepts at all.
- With concern to the demographic and socio-economic factors of financial literacy it was found that females exhibits low level of financial literacy as compared to males.
- The study made here finds that investors in the age group of 18 to 35 years and 56 years and above possess a lower level financial literacy.

At last author concluded that the relation between financial literacy and financial behaviour leads to controlled spending and saving behaviour and also have significant impact on investment decision of investors.

(D) In the research study by Abdul Latheef Kiliyanni and Sunitha Sivaraman (2016) "The Perception-Reality Gap in Financial Literacy: Evidence from the Most Literate State in India" measures the level of financial literacy and evaluates the impact of demographic and socio-economic attributes on financial literacy among the educated young adults in Kerala. The study also examines the gap in financial literacy and the attitude of young adults towards financial education. The study made finds that demographic and socio-economic attributes influence financial literacy. The study also observes that respondents overrate their financial literacy by around 50% which indicates their over-confidence in the knowledge related to personal finance. However majority of the respondents (89%) in the study conveyed the need for financial education. The study at last also calls out for initiatives to improve financial literacy among young adults in Kerala.

COMPARISON OF THE STUDIES

While the study by Job Joseph and Dr. M. Maharajan indicated that the financial literacy among marginalised people is excellent only in less than 5% people and financial literacy is associated to education and income, the overall results of the study by Prof. Sobhesh Kumar Agarwalla, Prof. Samir Barua, Prof. Joshy Jacob and Prof. Jayanth R. Varma indicated that financial knowledge in India is very low even below the global standards. The results of the study by Harsha Vijay Kumar Jariwala on investors in

Gujarat and in a study by Abdul Latheef Kiliyanni and Sunitha Sivaraman on educated young adults in Kerala are consistent in their results that financial literacy is low and calls for initiative to improve it. Despite the differences in the study conducted on different target groups of the society the study shows that there is a lack of financial knowledge, attitude and behaviour among different target groups studied. And the problem needs to be addressed by focusing on policy measures, initiatives and education programmes which help in the increasing the financial literacy level in the society.

RESERACH GAP

On reviewing the literature it appears that most of the studies on financial literacy are done in developed nations or by the international institutions studying financial literacy in world's economies. Very few researches have been carried on in developing countries like India. The population focused in the studies are mainly marginalised people, women, micro entrepreneurs and investors. It is also important to point out here that the majority or most of the most studies are being conducted in the Post Financial Inclusion Schemes scenario.

FUTURE OPPORTUNITIES IN FINANCIAL LITERACY

- Financial education as a tool for investment of among household sector.
- Financial Capability and Retirement Preparedness among households.
- Ease of access to financial Market among households sector.
- Digital Payments & Technology adoption in effective use of financial services among households.
- A study to assess financial education as introducing it in education curriculum.
- Study on human resource and future saving among middle income households.

CONCLUSION

The basic objective behind this paper is to review and discuss the important recent studies in the field of financial literacy which help to fill the gap in the area of financial literacy. The survey of financial literacy around the globe by Leora Klapper, Annamaria Lusardi, Peter Van Oudheusden (2014) and Montagnoli, Mirko Moro, Georgios A Panos and Robert E Wright in (2016) conducted on international platform covering globally shows low level of financial literacy and a need for an financial education program which will help in encouraging effective money management practices, investment practices and future savings habits. In the recent time period recognising the need for financial literacy the study conducted in Asia by Shawn Cole, Thomas Sampson, Bilal Zia (2009) covering India and Indonesia raised the question of low formal financial services demand and answers to the question as one of its reason as low financial literacy also. Similarly in the study by Naoyuki Yoshino, Peter J. Morgan, and Ganeshan Wignaraja (2015) and several others highlights the moderate and low level of financial literacy in different groups studied as well as a strong connection with the socio- demographic factors. Nevertheless, the studies reviewed in Asian context suggest that promoting financial education have significant potential benefits that are to be achieved from more concrete policy efforts in this region. The International experience in the field of financial education by different organisations, policymakers and academicians

offers many precious experiences for promotion of financial education in Asian countries. The studies in Indian context while reviewing the literature shows that if the training programmes are properly implemented for the targeted population group it will result into increasing the average financial literacy level. While reviewing the literature of financial literacy it shows that the level of financial literacy in India is low and in some studies it highlights to be below the global standards as evident from the study by Prof. Sobhesh Kumar Agarwalla, Prof. Samir Barua, Prof. Joshy Jacob and Prof. Jayanth R. Varma (2012). In the current study while reviewing literature in Indian context identified that financial literacy is related with socio demographic variables like gender, age, education, and income, employment status etc. In Indian context the study shows that majority of researches conducted in the field of financial literacy are concentrated in southern and western part of the country very few studies are conducted covering India as a whole. Thus, financial literacy education policies need to identify how to serve best to improve the level of financial literacy of majority of the segments in population also. The all in all researches in academic field in the area of financial literacy is relatively new and there is a lot to bring out and inquire. The review of available literature reveals that even though studies are conducted about financial literacy in Indian context it is important to point out that the socio-demographic factor varies across the different countries and regions and differ significantly. Financial literacy is more significant to any economy as improved financial knowledge will lead to an improvised financial attitude and behaviour. In this context, the present study would prove to be a beneficial venture in the area of financial literacy. Thus more research in this area helps to enhance the impact of financial decision making as well as on the life of individuals.

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