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Financial Literacy in India: A Critical Review of Digitalization and Demonetization

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Abstract: Empirical evidence indicates quite a low level of financial literacy in both developed and developing nation seven among the educated populace. This fact acquires greater relevance with respect to a developing economy like India that is characterized by a large diverse population, low bank penetration especially in villages and diversity of financial products. Financial literacy addresses the demand side, leading to financial planning, financial inclusion, and inclusive growth. The present government has given impet us to the idea of financial inclusion visits program like Jan Dhan Yojana. Against this backdrop and proliferating digitalization process in the financial eco-system, the paper attempts to collect insights from the literature so far and attempts to suggest away forward considering the poor financial literacy and low demand for financial products and services in India.

Keywords: Financial Literacy, Financial Inclusion, Financial Education, Demonetisation,

INTRODUCTION

It is widely assumed that financial literacy is associated with better financial outcomes and financial decision-making behaviors. " Having good financial literacy is a collection of information, skills, attitudes, and behaviours that are necessary to effectively manage one's financial affairs..''– OECD 2012. Financial literacy of individuals is a measure based on a standardized questionnaire which includes three dimensions of financial literacy i.e. financial attitude, financial knowledge and financial behavior.

In the developed economies, with an array of financial products and services, financial literacy is considered a tool for consumer protection through money management, mortgage, and retirement planning. Hilgert and Hogarth (2002), Mandell (2008) and Chen and Volpe (1998) have revealed in adequate levels of financial literacy prevailing among you than the US. (Lusardi and Mitchell, 2007) revealed that 43% people nearing retirement could not compute the simple interest correctly indicating that familiarity with interest rates and compounding is only weakly related to age. This puts for clearly that higher literacy levels do not guarantee higher financial literacy.

Households with low levels of financial literacy are less likely to plan for retirement (Lusardi and Mitchell, 2007a), borrow at higher interest rates accumulate fewer assets and participate less in the formal financial system. Individuals with a greater degree of financial literacy are more likely to generate more income from their savings and to invest in a wider range of financial instruments. Higher degrees of financial knowledge are linked with more effective money management, according to the research. Better, cheaper, and more appropriate products and services will be demanded by skilled consumers. This will result in more effective regulation, greater financial market efficiency.

In the developing economies, majority of the population do not have access to the basic financial services like online banking, credit, retirement plans, etc. For example, Gaurav and Singh (2012) examined the financial literacy and cognitive ability of farmers in the state of Gujarat in India and found that farmers' financial education is an indicator of their debt literacy and financial aptitude. “Financial literacy is an important predictor of financial behavior in the developing world”- Shawn Cole, Thomas Sampson, and Bilal Zia 2009.

The statistics on financial literacy in India reveal an a by small state. Thorat (2007) brings out that over 40 percent of the adult population do not have a banking account which escalates to over 60 percent in rural areas. Further, only 45% got a correct response to a question on compound interest and only 43% understand the dynamics of inflation. The paper indicated that awareness of financial products is generally low among employed adults with only about 7% being aware of all the commonly available instruments. Awareness about fixed deposits, one of the most popular financial product, is also not universal. More than half of young employees are not aware of employee specific tools like PPF and pension-fund.

The growing middle class with working age adult shaving savings at their disposal but unaware about the investment prospects there by resorting to traditional products of finance such as bank deposits and life insurance (LIC). Most rely on friends, relatives, and the internet for understanding and making decisions regarding financial products and services. Indian families discuss money matters including budgeting, saving and responsible spending habits with their children just 10 days per year because 43% women and 20% men said they did not understand personal money management well enough to discuss the subject with their children. Thus educating them about the investment avenues and helping them make sound financial decisions could eventually boost the demand for financial products and help the economy grow. Bryce L. Jorgensen and Jyoti Savla 2010 suggests the importance of parent socialization on the level of financial literacy of young adults. The family composition, parental guidance and social status can positively affect the financial literacy of the youth, preparing them to be responsible investors in the future.

LOW DEMAND FOR FINANCIAL SERVICES

With the advent of liberalization, the financial services sector has shifted its focus from the traditional financial products like deposit and credit of Public Sector Banks (PSBs), As/credit cards, funds, ETFs index funds, Plans SIP),-life insurances, among others, are offered by the Life Insurance Corporation (LIC), the postal department (recurring deposit, NSC, and Kisan Vikas Patra), among others (Unit Linked Investment Plans ULIPs) and debt securities. The investor base has increased over time due to factors like new players in the growing financial market, availability of innovative and attractive investment avenues, regulatory initiatives and greater exposure due to the marketing activities.

With the complex and dynamic financial scenario, the demand for financial products and services still remain low. The survey administered in Gujarat (Shawn Cole, Thomas Sampson, and Bilal Zia 2009) showed that only 12% of the household had a bank account while only 13% respondents had borrowed from the formal sector since majority relied on informal borrowings. The low demand for formal financial services or intermediaries in the emerging economies like India and Indonesia is attributed to low incomes, costly services, and low financial literacy and poses a serious challenge as to how such a huge untapped potential can be channelized.

The Gallup World Poll (GWP) survey 2011 reported that only 41 percent of adults in developing economies have an account at a formal financial institution. Various studies have highlighted the power that a bank account accords to an individual. It encourages savings (Aportela,1999), consumption and productive investment of entrepreneurs (Dupas and Robinson,2009) and contributes in female empowerment(Ashraf etal.,2010). Easy access to finance has been viewed as a critical factor in helping people to transform their production and employment activities and to exit poverty (Aghion and Bolton 1997, Banerjee 2001, Banerjee and Newman 1993, Pande and Burgess 2003, Yunus 1999). Thus bringing more people in the financial system is an opportunity to foster entrepreneurship and to give everybody a fair chance towards social upliftment. Since India is a hugely under-penetrated financial market, it presents immense opportunities to tap investors’ savings and channelize the mint the financial markets which can be accomplished through a concerted effort at boosting the demand for the financial products via financial education.

FINANCIAL EDUCATION

Financial education programs have been considered as a low-cost intervention with capacity to improve household financial decision making and ultimately increase savings and enhance over all welfare. The Reserve Bank of India established Financial Literacy and Credit Counseling Centers throughout the country in 2007 which aimed at offering free financial education and counseling tour ban and rural populations. Study material like journals and books on financial planning a rereleased periodically for students and new professionals. SEBI, the financial market regulator, organizes work shops on various aspects viz. savings, investment, financial planning, banking, insurance, retirement planning, spending, managing debts and overall money management through certified resource persons to promote financial education. SEBI has a website for investor education where in study materials in English and vernacular languages are available for dissemination.

DIGITAL INDIA AND FINANCIAL INCLUSION

According to the UNSGSA report, there are two billion adults who do not have access to a formal system. These people typically have access to expensive and often reliable informal moneylenders, brokers, and the organized sector.

With the introduction of digital financial services via information and communication technologies (ICT), the concept of digital financial inclusion has also gained a lot of import an in recent years. People who are financially included make use of numerous electronic platforms and transact digitally using debit/ credit cards, point of sale (POS) machines, online banking, and mobile financial services. Financial literacy and financial inclusion are two dimensions of financial stability. Financial inclusion considers the supply side of the financial products covering financial markets, the network of banks and other financial institutions, appropriate design of products and services where as literacy boosts the demand side.

Globally governments and international organizations like United Nations (UN), World Bank, and Organization for Economic Cooperation and Development (OECD) have emphasized on initiatives and programs aimed at improving the financial literacy of the public especially in the wake of financial crises and economic instabilities. India's digitization of government transfers and benefits to millions of citizens under Direct Benefit Transfers (DBT) scheme has helped lower costs, plug leaks, and simplify administration. The government channelizes resources for micro finance to motivate small marginal individuals and provide easy access to finance.

With this in mind, the government launched the Jan Dhan Yojana. The scheme encourages everyone to have access to at least one. Beneficiaries would be eligible for a RuPay Debit card with an accident insurance of Rs. 1 lakh. In October 2015, 19.02cr accounts were created under this scheme. This has resulted in a significant increase in bank account penetration—operational; As a result, bank accounts are opened. For each of those steps, for example, Furthermore, critical gaps exist in understanding microfinance, step banking, respondents (bank tech, supported players, etc.).and exclusion

DEMONETIZATION

The Indian government announced the policy of demonetization by discontinuing the legal tender status of Rs 500 and Rs 1000 notes on 8th November 2016 with the initial objectives of eliminating fake currency, eradicating black money, restraining the shadow economy escalating inflation and disrupting terror activities. Giving a statutory basis for Aadhaar, implementation of Directs Benefits Transfer, the introduction of RuPay Cards and Voluntary Disclosure Scheme for un accounted money were the steps that prepared the nation for this major policy. The decision received a mixed response from the citizens. There were widespread frenzy and speculation as the move came as a shock since 86% of the value of the currency in circulation was removed from the system. Some considered it a bitter pill that the economy needed and appreciated the move towards a digital cashless economy while others believed that the long term effects should be studied to estimate the efficacy of the policy.

Demonetization has given a fill to digital transactions. Before 8 November 2016, India's cash to cards/ net-banking ratio was 60:40. Post de-monetization, it saw a complete reversal. This ratio moved to 15:85 with a sharp increase in the use of mobile wallets and net banking with cash dropping to 15 percent. Remittances through mobile transfer, internet banking, NEFT, RTGS and Debit/Credit cards has become widespread. Itenables growth in bank credit eventually turning India into a cashless digital economy.

Earlier smart phones were considered a luxury that only the rich could afford but that notion has changed as the smart phone user in the world are expected to sur get o6.1 billion by 2020. Indian smart phone users have reached 340.2 million in 2017. The access to digital money using license de-money wallets from digital payment platforms like Paytm, Freecharge, Mobiquik, etc. has broadened the access to and ability of the people to send and receive funds, recharge everyday utilitieslike mobile phones, landline/ broadband, electricity, water and gas bills, metro cards, DTH cable, data cards, etc. Similar international initiatives that have promoted financial inclusion requirement on such as M-PESA and Tigo Pesain Kenya and Tanzania, GCASH and Smart Money in the Philippines, Easy Paisa in Pakistan and WING in Cambodia. Furthermore, it gives greater impetus to the thriving E-commerce platforms like Flipkart, Amazon, Snapdeal, etc and helps to drive both access to finance as well as broader digital inclusive economic opportunities to millions of customers and sellers.

Demonetization has linked the biometric Aadhar card to the multiple accounts of an individual as well as various departments such as Income Tax, Sales Tax, VAT, Excise, Customs, Service Tax, Licensing department etc. so that, various transactions can be traced easily. Economic digitizationals increases the government's ability to manage its taxation system more efficiently. National identification systems and the role of biometrics and tiered know-your-customer digital solutions that reach beyond the current banking system create a cleaner, more transparent white economy via digitalization that improves the climate for foreign investment, boost economic growth, and ultimately propel the country to the next chapter of its emerging markets story.

WAY FORWARD

The financial education programs should be tailor- made considering the diversity interms of language, culture, income levels and the target population like young students, the urban or rural populace, etc. Atkinson and Messy(2012) shows that financial literacy follows a hump-shaped pattern, indicating low literacy levels among the young and the elderly. Thus youth constitute a very important section to be tapped and students from various disciplines can be targeted with a supplementary credit course including basic financial concepts and ideas. Indian joint family structure and parents' encouragement to discuss financial matters can prove to be vital for spreading financial literacy among the youth during their growing years and eventually disseminating the acquired knowledge among the elderly.

The demonetization policy has given momentum to the digital India dream, thus efforts at making the technology accessbile at the bottom of the pyramids should be emphasized further. This would require strengthening a digital transactional platform, networks of agents, and the customer's access to the mobile digital device. Recent Initiative like Aadhar linked payment mechanism, banking without physical outlets, internet and smartphones are a stepping stone to penetrate deeper into rural areas. Partnership with strategic companies and outlets that can act as third party financial agents especially in rural or difficult to reach areas are important. With these components in place, Payments and transfers, as well as Credit, savings, insurance, and even securities, can be offered digitally to excluded and under served customers. Due to these propositions, digital literacy has become a major matter of public concern for educationalists and policy makers. Thus, the digital divide would enable the weaker section of the society to prosper and contribute to the nation's growth story. Keeping this in mind, recently Union Law Minister & Justice has launched a free Doordarshan DTH channel Called DIGISHALA which will acquaint them as regarding the use of unified payment interface (UPI), Aadhar-enable payments system, electronic wallets, debit and credit cards, thereby promoting various modes of digital payments.

In India, the regulatory landscape is under going a shift, as a result of global reforms related to Base norms, OTC derivate reforms and the development of an effective anti money laundering (AML) framework. As sound banking system lays the foundation for a secure financial environment in an economy. A Strong regulatory framework is needed to give a definitive direction to the banks and financial institutions regarding exposure limits for lending, maintenance of adequate liquidity, provision for non-performing assets, priority sector lending to a weaker sections and issues of new bank licenses to a shape a robust financial environment.

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