FINANCIAL ILLITERACY IN INDIA

~ Devika Vir

India has one of the lowest financial literacy rates in the world- the country has a vast population consisting of 1.35 billion people, of which 76% are financially illiterate. In India, financially illiteracy stems from lack of financial inclusion and digital illiteracy. There are four primary factors that are causing this dearth of financial literacy and inclusion- the national wealth gap, lack of access to technology, gender inequality, and regional disparity.

NATIONAL WEALTH GAP

Over the past few decades, India has witnessed the wealth gap increasing. This means that the national wealth is distributed in a way where wealth is concentrated amongst the few top percent, with the majority of Indians living in conditions of poverty. This is a trend that is noticed in many post-colonial nations.

What is also observed is that the vast majority, working daily wage jobs and without access to education, lack financial literacy. This lack of financial literacy allows the majority to remain in this cyclical poverty trap as they are unaware of methods of budgeting and saving, meaning that their future generations find the same lack of access to financial literacy. Migrant workers, especially, have suffered due to this during the pandemic. They have lost employment and had to return from the metropolitan cities to their villages, devoid of work and regressing back into the poverty trap that they had worked so hard to escape, whilst the upper echelons have managed to maintain their wealth. Thus the increasing wealth gap and the following inaccessibility to financial literacy results in lack of financial inclusion.

ACCESS TO TECHNOLOGY

Additionally, there is a gap in access to technology. Those with a concentration of wealth have access to the best technology and are moving forward. We have seen the rise of internet and mobile phone banking over the last decade, which renders older banking methods redundant. Whilst the upper tiers of society progress, the poor are getting left behind as they do not have access to even the basic technology which makes banking and financial education accessible.

GENDER INEQUALITY

Thirdly, gender inequality contributes to the lack of financial inclusion. India has a history riddled with discrimination against women, especially through means of enforcing a regressive gendered approach to household structures. This has led to literacy rates in general, and consequently financial literacy rates, being extremely low amongst women.

There is a staggering difference in India - 73% of the male population compared with 80% of the female population is financially illiterate. Since the problem is gendered, the solution must be gendered as well in order to ensure equitable measures. Women's societal position, as a result of both direct and indirect submissive ideals being enforced upon them, has resulted in women having a significantly lower financial literacy rate and less financial knowledge. This results in women's role in the private sphere being reinforced and prevents their empowerment through emancipation

REGIONAL DISPARITY

India has 29 states each at different stages of development with varying socio-economic climates and varying needs. The data set from a report conducted by the National Centre for financial Education shows that the state with the lowest rate has a financial literacy rate of 4%, whereas the state with the highest rate stands at 83% - this is an extreme gap, proving the developmental differences across the country. Inter-state differences of this extent expose the diversity of need, proving that solutions must be catered according to the education, technology and infrastructure of each region individually

PROBLEMS WITH THE 'SOLUTIONS'

Certain so-called solutions have been implemented over the last few years. Financial illiteracy and the impact it has on socio-economic conditions has become a matter considered important in policy making. However, the measures that have been created so far have proven to be cursory, and further, have not even been implemented wholly.

RURAL INACCESSIBILITY

Efforts have been made to set up Financial Literacy and counselling Centres by leading banks, and the newly set up National Centre for Financial Education. However, were found to be ineffective due to their limited outreach and lack of teaching structure.

The programmes must be catered to the specific audiences and organisations need to ensure that those with limited literacy are able to understand and implement the practical aspect of financial knowledge. Again, the lack of technology in rural areas make them inaccessible, meaning that all of these schemes allowing for education primarily via the internet and computers, are unable to reach majority of the population.

LACK OF HANDS-ON IMPLEMENTATION

The Government realised that financial inclusion is the main facilitator for the efficient functioning of the economy through social programmes and as a result, in 2014, it launched the Pradhan Mantri Dhan Yojana – a Prime Ministers plan aimed at opening bank accounts for all, with a focus on those in rural areas. However, a follow up analysis of this programme showed that 54% of females and 43% of males were not using these bank accounts, as no efforts to impart financial knowledge and education were made.

LACK OF EQUITABLE MEASURES ACCOUNTING FOR DIVERSITY OF NEEDS

As highlighted previously, different regions and social groups have varying needs. Thus, there must be a focus on those who are especially vulnerable i.e. women and children.

Financial literacy is an important tool in ensuring empowerment of women and thus equitable measures to aid women, accounting for their social situation, need to be created. For example, teaching women how to maintain their finances from daily wage work through teaching them about creating, using and, maintaining their own bank account, and budgeting and saving. Financial literacy programmes must also be created in accordance with the needs of those in different regions. Schools, especially those that have been established in rural areas, must include financial education in their curriculum.

Therefore, these issues must be tackled through measures accounting for the diversity of needs and making technology and digital literacy more accessible, to ensure financial inclusion and empower those who have so far been left behind.

Resources

https://streetfins.com/the-importance-of-financial-literacy-in-india/

https://www.aegonlife.com/insurance-investment-knowledge/financial-literacy-india-poor-heres-data-says/

https://medium.com/@capriglobal/the-importance-of-financial-literacy-in-india-79ab9f3b52e9

https://timesofindia.indiatimes.com/home/education/news/why-encouraging-literacy-in-finance-matters/articleshow/78060694.cms

https://www.vittshalasrcc.org/post/why-financial-literacy-campaigns

https://www.thebetterindia.com/201054/india-free-bank-accounts-women-scheme-advantages-system/

https://www.livemint.com/Opinion/f5xo11OSPqxGWUdaWKVb8J/Why-India-needs-to-work-on-financial-literacy-now-more-than.html

Kapadia, Sunil, A Perspective on Financial Literacy and Inclusion in India (May 30, 2019). Available at SSRN: https://ssrn.com/abstract=3396241 or http://dx.doi.org/10.2139/ssrn.3396241