

The Financial Literacy of Indians

Financial literacy and financial inclusion are two aspects of financial stability in a country. When people are financially literate, they are more likely to explore the products and services offered by banks and use them for their benefits. This accelerates the pace of financial inclusion, where everyone can access the basic banking facilities rather than relying on the orthodox systems of money market such as borrowing money from Zamindaars or village money lenders. Unfortunately, when it comes to India's financial literacy rate the statistics are quite shocking. According to a survey conducted by Standard & Poor's, over 76% Indian adults lack basic financial literacy and they don't understand the most basic and key financial concepts. While the number is much lower than the worldwide financial literacy rate, it's roughly in line with the BRIC and South Asian nations. While financial inclusion emphasizes on creating more accounts in order to make the common banking facilities easily accessible to all, financial literacy emphasises on expanding the knowledge on financial matters and products.

States according to status of financial inclusion	Financial Inclusion Index	Usage Dimension of Financial Inclusion Index	Literacy Rate
High Financial Inclusion			
Kerala	0.54	0.28	93.91
Maharashtra	0.53	1	82.91
Karnataka	0.53	0.46	75.6
Medium Financial Inclusion			
Tamil Nadu	0.48	0.38	80.33
Punjab	0.45	0.29	76.68
Andhra Pradesh	0.41	0.41	67.66
Low Financial Inclusion			
West Bengal	0.28	0.23	77.08
Gujarat	0.26	0.16	79.31
Uttar Pradesh	0.24	0.15	69.72

Source: RBI Working paper Series WPS DEPR: 8/2011, Financial Inclusion in India

In the above table Financial Inclusion Index ranges between 0 to 1 where "0" denotes the low financial inclusion and "1" denotes the complete financial inclusion. The present study tries to assess the correlation between Usage Dimension of Financial Inclusion Index and Literacy Level in India.

Going Forward

Without increased financial literacy, people will be increasingly at risk of making poor financial decisions which will leave them to confront financial hardships, including an insecure old age. Financial literacy means that people should be made aware of what they can and should expect from the banking sector, as their right. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts can only happen through financial literacy this can be done by offering at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages, money transfers, etc. and all this at a reasonable cost.