

Financial Literacy in India: Bridging the Gap between Awareness and Action

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Abstract

"Financial literacy is not just about understanding money—it's about using that knowledge to make informed decisions." This paper explores the financial literacy gap in India, highlighting the disparity between awareness and practical action. Despite increased efforts in financial education, many individuals struggle due to insufficient knowledge, skills, and application of financial concepts. Contributing factors include income inequality, inefficient government platforms, limited reach of financial literacy programs, and inadequate regulatory oversight. Additionally, significant disparities in understanding financial instruments across different demographics hinder progress. The paper proposes solutions such as integrating financial literacy into educational curricula, enhancing accessibility to financial services, and launching targeted campaigns for diverse groups. The aim is to empower individuals to make informed financial decisions and secure their futures.

Keywords: Awareness and Action, Financial Education, Government Financial Platforms, Regulatory Authorities

Introduction

Financial literacy encompasses the ability to understand and effectively use various financial skills, including personal finance management, budgeting, investing, and knowledge of financial products. In India, it is essential for enabling individuals to make informed decisions regarding savings, investments, and debt management. Despite its importance, financial literacy levels remain low, with only 24% of the population demonstrating basic understanding, according to the S&P Global Financial Literacy Survey. This highlights the urgent need for initiatives that address the gap between financial awareness and actionable behaviour

Review of Literature

Lusardi and Mitchell (2014) define financial literacy as the ability to comprehend and utilize financial information to make decisions about saving, investing, and planning for the future. Their research indicates that financially literate individuals are better at saving and long-term planning.

Agarwal and Gupta (2020) revealed a stark divide between urban and rural areas in India, with financial literacy rates of 40% in cities versus 27% in rural regions. Contributing factors include limited access to financial education, income inequality, and restricted opportunities for women to learn money management.

The Reserve Bank of India (RBI) has implemented the National Strategy for Financial Education (NSFE, 2019-2024), which focuses on awareness campaigns and school programs. However, Singh (2022) highlights that these efforts often fail to reach remote areas due to language barriers and low resource awareness.

Digital platforms, as noted by Chattopadhyay and Das (2021), have increased accessibility but lack trust and usability among many users, emphasizing the need for simultaneous improvement in financial and digital literacy.

Sharma (2023) found that financial literacy programs frequently focus on theoretical knowledge without practical applications, leaving individuals unprepared for complex financial decisions. Tailored approaches for specific groups, such as women and low-income families, are recommended.

Scope of Study

1. Evaluate current financial literacy levels across demographic groups in India.
2. Assess the effectiveness of government-led financial literacy initiatives.
3. Compare India's financial literacy rates with those of neighboring countries like China and Bangladesh.
4. Identify challenges and barriers in improving financial literacy across urban and rural populations.

Research Methodology

This descriptive study is based on secondary data from global reports, NFCE documents, Reserve Bank of India publications, academic journals, and relevant research papers.

The Current Landscape of Financial Literacy in India

Financial Literacy Levels

- **Overall Statistics:** According to The New Indian Express, 42.8% of Indians possess basic financial literacy, 20.8% moderate, and 4.2% advanced literacy.
- **State Variations:** Arunachal Pradesh leads with a 57.10% literacy rate, while Puducherry lags at 5.70%.

International Comparisons

India's financial literacy rate remains lower than developed countries like the U.S. and the U.K., where rates exceed 60%.

Challenges in Bridging Awareness and Action

Despite efforts, several barriers persist:

- **Access to Education:** Limited reach of quality financial education in rural areas.
- **Income Disparities:** Significant variations in income levels hinder financial inclusion.

- **Trust Issues:** Many remain wary of digital financial platforms.
- **Practical Application:** Lack of actionable knowledge leaves individuals ill-equipped to handle real-world financial decisions.

Government Initiatives for Improvement

Reserve Bank of India (RBI)

- Launched the **National Strategy for Financial Education (NSFE)** to improve literacy through awareness campaigns, school curricula, and counselor training.
- Collaborated with stakeholders to expand financial services in underserved areas.

Pradhan Mantri Jan Dhan Yojana (PMJDY)

- Aimed at financial inclusion by providing banking access to unbanked populations.
- Promoted digital financial literacy via mobile wallets and online platforms.

Money Smart Teacher Program (MSTP)

- Focused on equipping teachers with financial knowledge to educate students effectively.

IDFC FIRST Academy

- Offered digital courses with interactive tools to simplify financial topics for SMEs, women entrepreneurs, and rural families.

Suggestions

To address the gap between financial literacy awareness and actionable behaviour, the following steps are recommended:

1. Develop local-language financial literacy resources.
2. Incorporate mandatory financial literacy courses in schools and colleges.
3. Launch targeted campaigns for marginalized groups, including women and rural populations.
4. Strengthen regulatory oversight to protect consumers from unregulated financial platforms.
5. Promote cultural and societal openness regarding financial discussions.

Conclusion

India's financial literacy journey requires a multi-faceted approach that addresses educational, cultural, and infrastructural barriers. By focusing on inclusivity, practical application, and targeted interventions, the nation can empower its citizens to make informed financial decisions and secure a prosperous future.

To achieve this, greater collaboration between government bodies, educational institutions, and private organizations is essential. Expanding the reach of financial education through digital platforms and grassroots campaigns will ensure that even the most underserved communities benefit from these



initiatives. Additionally, fostering a culture of financial responsibility and encouraging open dialogues about money matters will pave the way for a financially resilient society.

Ultimately, the goal is not just to impart knowledge but to inspire action. By bridging the gap between awareness and execution, India can transform its population into a financially empowered workforce capable of contributing meaningfully to economic growth and personal well-being.

Achieving financial literacy on a large scale also requires adapting strategies to meet the needs of diverse groups. Special emphasis should be placed on rural populations, women, and young people to build a foundation of financial independence early in life. Policy reforms, improved access to financial tools, and ongoing public awareness efforts will collectively create an ecosystem where financial literacy becomes an integral part of everyday life.

With concerted efforts, India can transition from a country struggling with financial illiteracy to a global model for financial empowerment, where every citizen has the knowledge and confidence to make sound financial choices. This transformation will not only uplift individual lives but also contribute to a robust and inclusive national economy.