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Bhartiya Model of Financial Literacy: Encouraging Savings and Investment Pattern in Rural India

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"A compelling body of evidence demonstrates a strong association between financial literacy and household well-being. Survey after survey shows that households that demonstrate low levels of financial literacy are those that tend not to plan for retirement, borrow at high interest rates, and acquire fewer assets." - Shawn Cole

Abstract: Financial Literacy is a combination of financial awareness, skills, knowledge, behaviour and attitude ‟ necessary to make sound financial decisions and ultimately achieve individual financial wellbeing . Financial literacy is expected to impart the knowledge to make ordinary individuals into informed and questioning users of financial services. It is not just about investing and markets, but also about saving, financial planning, basics of banking ,budgeting and most importantly, about being Financially Smart. India has large sections of persons who are resource poor and who operate on the margin. Financial literacy can help them prepare ahead of time for life needs as well as to deal with unexpected contingencies without assuming unnecessary debt. The Organization for Economic Co-operation and Development(**OECD**) has defined financial education as "the process by which financial consumers/Investors improve their understanding of **financial products**, concepts and risks, and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of the financial risks and opportunities to make informed choices to know where to go for help and to take other effective actions to improve their financial wellbeing". In current emerging economies like India where more than 60% of the population lives in the rural areas, it is necessary to ensure adequate access to the financial products and services to all the individuals in the country. The growth of financial system depends on the penetration of the financial products into the rural markets in the country. Lack of awareness about the different financial products among the rural households not only affects the growth of financial system in the country but also the overall quality of life of **rural households**. The main theme of this paper is to highlight the empirical implication of relationship between financial literacy and household financial behaviour in India. This paper seeks to provide evidence on impact of **financial inclusion** in India, the various issues of financial exclusion, and present status of financial services of India for which we have studied secondary data to draw the conclusion. The study found that with this initiative the poorer section of the society will get benefited for their development and growth.

Keywords: Financial Inclusion, Financial Literacy, Rural households, OECD, Financial Products.

Introduction

The Indian financial sector has emerged stronger after the global financial crisis in 2008 and 2009 ,with the savings and investments showing a growth pattern in terms of number of investors and the volumes. As defined by World Finance, **Investment,** is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income or appreciation of the value of the instrument. Investment is related to savings or deferring consumption. But unfortunately, most of us are unable to understand this utilization of funds as we are not **Financially Literate.**

Various programmes have been launched all around the world to make the masses Financially aware and literate. In this context, India has taken some steps for educating and upgrading the financial mindset of people through **financial literacy**, so that they are able to use the financial tools and information confidently for betterment of their life.

According to OECD ,by far Financial Literacy as "a combination of awareness, knowledge, skill, attitude and behaviour; those remain essential aspects to make a sound financial decision in general that eventually secure financial welfare also for an individual" . **National Financial Educators Council (NFEC)** of USA suggests that Financial Literacy refers to “possessing the skills and knowledge on financial matters so that effective actions can be taken efficiently that best fulfills first an individual’s personal and family goals, thereby meeting community goals at large”.

Financial literacy may be defined as the process to "inculcate the ability to understand personal financial wellbeing. It include the awareness about financial products, market information’s, sources of getting financial knowledge and confidence for discussing financial issues, so that a person can plan for the future, make proper decisions to meet out the life events.” Financial literacy is a combination of financial behaviour, financial attitude and financial knowledge.

In light of this, a new model, called as Bhartiya Model of Financial Literacy (BMFL) has been proposed at Banasthali Vidyapith,the world’s largest residential university for women, and the only university in the country that has a Centre for Financial Planning Training and Research for Women. The CFPTRW in association with the PRIME(Promotion of Indian Management and Ethos) project at FMS-WISDOM has developed this innovative model.

Bhartiya Model of Financial Literacy (BMFL)

“Purohit. H (2015) Financial literacy can be defined as a subset of Purusharth which though cannot be understood in isolation as it deals with the financial knowledge, behaviour, attitude, approach, choice pattern, emotions, mindset and lifestyle, all keeping in view that Moksh (oneness with God) should be the top priority for overall happiness of self, family, society, nation, world and the universe, and not the material wealth”. This is the first definition of Financial Literacy in Indian context and can be understood in detail in the following manner:

i.“Subset of Purusharth: It comprises of four key aspects, first remains Dharm which means obligatory duty of a person as stated in Vedas, second is Arth reflecting the joy of material wealth for benefit of everyone around, third is Kaam that pertains to desire, fourth which also remains the most prominent is Moksh referring to oneness with God. Though Financial Literacy as a result seems to be a part of Kaam and Arth, but it would not be a relevant to think so as Financial Literacy has a deep connectivity with Dharm, with the ultimate objective of attaining the Moksh”.

ii.“Comprehensive Understanding, But Not In Isolation: Though FL has some association with Arth and Kaam also, But as the three subsets of Purusharth are ultimately directed towards attaining the Moksh, FL can never be comprehensively understood in isolation”.

iii.“Financial Knowledge, Attitude & Behavior: This concept is already explained in the generally accepted viewpoints of experts, OECD definition etc.”

iv.“Dharmic Approach: The approach may comprise several aspects like *Motivation following the ‘Basket of needs’* recommended by Indian management Guru, Prof. Subhash Sharma, in place of Hierarchy of needs prescribed by Maslow; *Room for ethics emanating from 'How to Earn'* (Shubh-Labh), *Managing Expenses, 'How to Donate'* (regularly, even if less) and *Accumulation of wealth* (primarily for the society, but working as a custodian for accumulated wealth following the Dharm path and remembering that in general, one should accumulate lesser wealth)”.

v.Choice Pattern: Refers to the way in which the suitable alternative is chosen after self-analysis, consulting family members and the expert, but assigning top priority to the Agya (order) by the Guru (Holistic Teacher & Learning Facilitator).

vi.Emotions: “Honoring money as *Devi Lakshmi* and donating without any publicity that refers to *Saatvik Daan* (giving selflessly) are the two unique ways to describe this term”.

vii.Mindset: “Determined by the purity (Shudhhta) of thought and liberation from Kaam (desires), Krodh (Anger), Mad (Pride), Lobh (Greed) and Bhay (Fear)”.

viii.Lifestyle: Keeping oneself detached that Mahatma Gandhi described beautifully as being desire-less except for greed to serve others.

ix.“Moksh and not the Material Wealth is the Top Priority: It is universally accepted fact that irrespective of how much wealth one keeps accumulating, but the truth remains that one can only live till his/her lifetime, that is already defined. And when the time comes, wealth built over the years would not go along with the one. Therefore, it is essentially wise to not make material wealth as the top priority. Moksh (oneness with the God) should to be the top priority as it is a unique opportunity for us to get birth as a human being”.

x.“Overall Happiness of Everyone: Morally speaking, one can never be happy if others are sad, and therefore Financially Literate individuals strive to extend all possible help and kindness to all the creatures of the Universe. The term universe is used as ancient Indian texts depict life other than only on Earth”.

Studies have shown that Financial literacy is comparatively lower in rural areas and basic financial literacy is required for effective decision making .Thus, Financial literacy acts as an aid in improving the quality of services and products.

Literature Review

Lusardi Annamaria , Mitchell .S Olivia(2007) in their research studied that the ones who are financially illiterate are unable to make decisions in reference to savings for retirement and thus have less wealth. In the given research questions has focused on respondents to Health and Retirement Study over 50 yrs of age. The researcher used Rand American Life Panel an internet survey in order to access financial knowledge of workers during their earning years. The researchers used multivariate analysis. The researcher concluded that financial literacy is a key determinant for retirement planning. And the ones who are financially literate they are more likely to plan for retirement and decision.

Mishra Loknath (2011) According to researcher financial education helps in enhancing financial capability. Financial capability has three main components:**Financial knowledge, financial skill and Financial Responsibility**.The researcher conducted financial Planning Education Survey (2011), wherein a questionnaire was designed and sent to (educationists, education providers, corporate bodies, NGOs) 150 respondents from which only 30% responded i.e 47.

In the words of Nelson Mandela, "Education is the most powerful weapon which you can use to change the world". Improvement in financial knowledge is necessary this is possible with right education to right persons at right time.

"Agarwalla Sobhesh Kumar, Barua Samir, Jacob Joshy, Jayanth R. Varma (2012) in their study tried to understand the Financial Literacy level of three demographic groups young working adults, retired and students .The survey involved 3000 respondents from the given age groups . The study involved questionnaire developed as per OECD standards. The findings suggest that financial knowledge was quite low. There was desirable attitude towards saving. Men were found to be financially knowledgeable than women. Financial knowledge was more widespread among the more educated and the relatively wealthy. The financial behaviour and attitude of women was marginally better compared to men. It was found that majority of respondents financially planed for their retirement and started systematic savings early in life. The overall awareness of financial products was reported to be generally low".

"Annamaria Lusardi conducted a study which comprise of sample population from US and used questions which provide the base for cross country analysis of financial literacy. These questions are the base of financial decision making as they are based on concept of numeracy, diversification, and inflation. According to a researcher financial illiteracy is detected across U.S, Netherland, Sweden, Italy, Japan, New Zealand, and Germany. Percentage of respondents who correctly answered the questions is comparatively less regardless of economic development stage. According to researcher financial literacy being analyzed based on gender, age, demographic groups , employment status, education. According to researcher the persons who are financially literate are more likely to plan for their retirement irrespective of number of schemes available. According to a researcher Poor financial literacy has been found across the nation. A strong linkage has been found in between the financial literacy and retirement planning".

"Jariwala (2013) conducted her research in Gujarat state on financial literacy and its impact on investment decision making. According to researcher a person can better choose the available investment avenue which will result into best product selection and sound financial well-being of an individual. The research depicts direct relation between financial education and financial investment decisions. Financial literacy helps the people to manage their financial goals under which they can opt for those investment options which will give good amount of return at the time of retirement. The research shows change in pattern of savers and change in pattern of investors with improving financial literacy".

"Dwivedi Monika, Purohit Harsh, Mehta Divya and Gurjar Sunita(2015) in their article emphasized on impact of financial literacy and their impact on managing the finance. They focused on importance of financial literacy within an organization registered under society's registration Act. They had emphasized on importance and role of PRADAN as an organization. This organization focus on an idea that brightest must work with the poor. This organization has taken an initiative to improve the living conditions of poor and eradicating poverty from the society. They worked for mobilizing the resources. This organization has taken an initiative for sustainable livelihood. Now the women don't need to take money from lenders. The women just need to take credit at 12% interest".

In a special invitation talk at Banasthali University, **Garg G.P. (2016)**, Registrar, **NCFE** emphasized on need for imparting financial literacy education in India, and expressed concern with lower level of financial literacy and discussed significance of efforts from all stakeholders to boost financial literacy.

According to the analyses made results shows that there is a direct and positive relationship between financial literacy and independent variables self-control, savings planning, retirement planning, and risk diversification.

Objectives of the Study

1. To study the impact of **financial literacy** on the saving and investment pattern in India.
2. To study the impact of **financial inclusion** in India, the various issues of financial exclusion and present status of financial services of India.
3. To highlight the empirical implication of relationship between financial literacy and household financial behaviour in India.

Research Methodology

The present study is descriptive in nature. The study relies exclusively on secondary data. The data used for the study has been collected from RBI bulletin, annual reports of RBI,CSO and Ministry of Finance, Report on trends and progress of banking in India and from various reputed journals.

Rationale of the Study

•As per census 2011, only 58.7% of households are availing banking services in the country.In India, almost half the country is unbanked.
• Only 55 per cent of the population has deposit accounts and 9 per cent have credit accounts with banks.
• India has the highest number of households (145 million) excluded from Banking.
• 6 lakh villages in India, rural branches of SCBs including RRBs number 33,495.
• Only a little less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage.
• Just 18 % had debit cards and less than 2 % had credit cards.

Need for Financial Literacy

The saving pattern of the rural households in India largely depends upon the family size ,income, consumption expenditure, occupation and other demographic characteristics. The savings rate also depends upon the availability and easy access of the financial institutions nearby. Many of the social characteristics like education, religion, tradition, superstitious beliefs and gender ratio affect the saving rate of the rural households. Most of the rural households have very less income for which they are incapable of saving. Almost 50 percent of the total rural population doesn't save because of low income and lack of awareness about the saving opportunities and facilities available to them.

The setting of livelihood in the rural areas to a great extent is reflected in the socio economic factors of households, which in turn persuade the households' economic behaviour. Need of the hour is that the government policies and social institutions need to adapt to changing saving pattern to cater to an ever increasing demand for the needs of the present economic situation. However, together with income trends, the saving behaviour of the population is increasingly seen as an important component of the demographic profile and a gradually changing pattern in the income and saving structure warrants thorough investigation of the saving population, as well as the long term implications of these trends.

Thus, Financial literacy is important as it develops the habit of saving for future and boost wealth. People need to save for future as future is uncertain. There are various initiatives taken by different private and public sector banks, the RBI, NISM, SEBI, NGO, NABARD, and Jan Dhan Yojana launched by the Government of India , PMJBY and various other programmes to promote financial inclusion at national level.

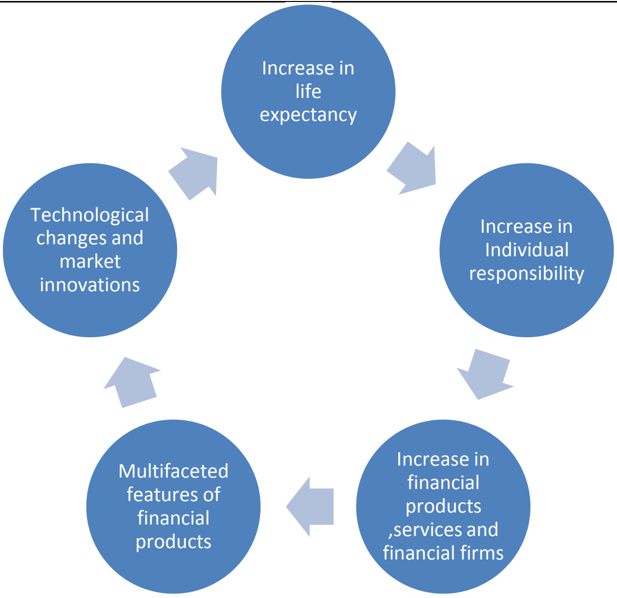


Fig 1 Need for Financial Literacy

Eight Elements of a Successful Financial Education Program

The guidelines by the United States can be used by any government or organisation to steer the development of new programmes or to enhance existing programme strategies. These eight elements of a successful financial education programme, developed by the Treasury Department's Office of Financial Education, suggest that to be successful, programmes need to be focused, be tailored to intended audiences, reflect a commitment to public outreach, set specific goals, and have results that can be replicated. The eight principles are as follows:

Basic tenets: Focus on one or more of the four building blocks to achieve financial security: basic savings, credit management, home ownership and retirement planning.

Target audience: For greater efficacy, it is important to take account of the language, culture, age and experience of the target audience.

Local distribution: Deliver the programme through a local distribution channel that makes effective use of community resources and contacts.

Follow up: To reinforce the message and ensure that participants are able to apply the skills taught, it is important to follow up with the participants.

Specific programme goals: Establish specific goals and use performance measures to track progress towards meeting those goals.

Demonstrable impact: Use testing surveying and other objective evaluation to demonstrate a positive impact on participants' attitudes, knowledge or behaviour so as to prove a programme's worth. The demonstrable impact would be whether participants increased savings, opened bank accounts or saved for a home, among others.

Replicability: The programme can be easily replicated on a local, regional or national basis.

Built to last: Programmes have continuing financial support, legislative backing or integration into an established course of instruction.

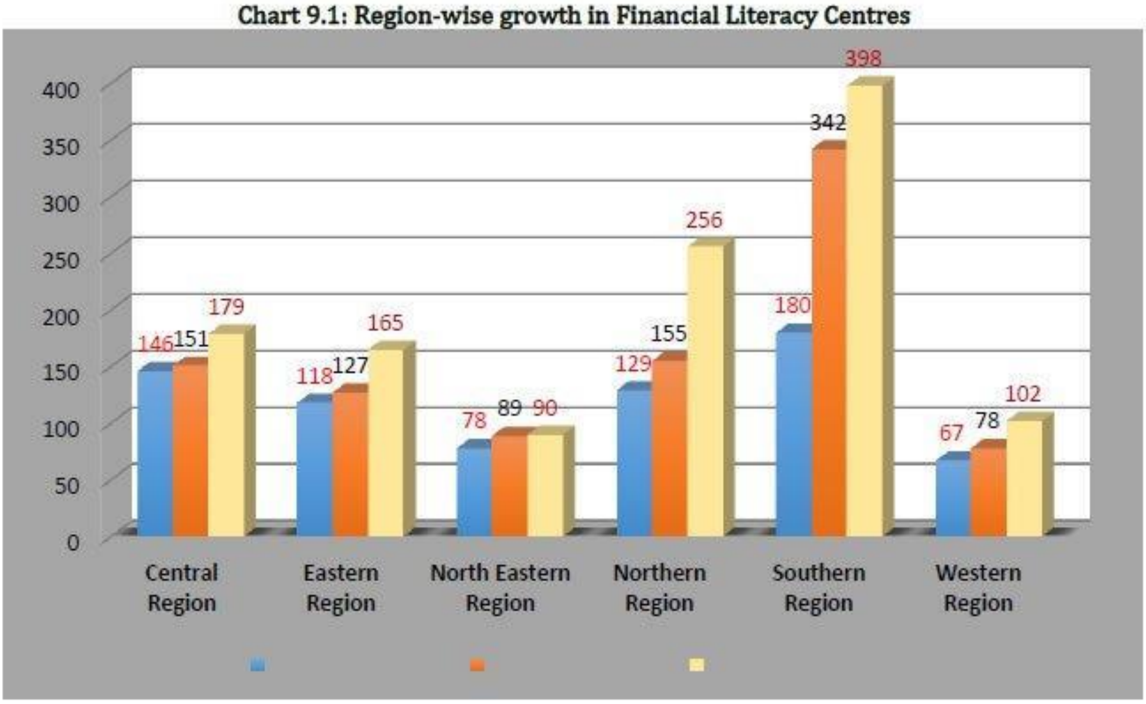
Findings: Institutional Framework on Financial Literacy Needs to Focus on Delivery on the Ground

The financial literacy efforts of the Reserve Bank are steered by the Technical Group on Financial Inclusion and Financial Literacy (TGFIL) of the FSDC Sub-committee. A National Centre of Financial Education (NCFE) was established for implementation of the national strategy for financial education. Awareness programmes in the form of a national financial literacy assessment test, financial education training programme for teachers and greater use of social networks is contemplated. The TGFIL is planning special financial literacy campaigns for adults who are newly inducted into the financial system, financial literacy through mass media and financial education in the school curriculum. The Central Board of Secondary

Education (CBSE), in consultation with the regulators, has developed a financial education workbook for Classes 6 to 10.

At the local level, as on June 2015, 1,226 financial literacy centres (FLCs) set up across the country by lead banks conduct financial literacy camps (Chart 9.1). Comprehensive financial literacy material was prepared by the RBI that consists of a financial literacy guide for trainers, a financial diary and a set of posters, all translated into 13 languages.

Chart 9.1: Region-wise growth in Financial Literacy Centres



Financial literacy has gained importance for country like India where literacy rate is low and people in rural areas are still out of access of basic financial set up and services. Indians are suffering from the financial disease like underinsurance, debt trap, insufficient retirement fund, low return on investment etc., and the cause of all these is one and the same i.e."Financial Illiteracy"**(Jariwala Harsha and Sharma Mahendra,2011).** Only providing financial products to rural or urban areas is not sufficient, people need to be well-informed in terms of fundamental financial products, knowhow of financial market, benefits of availing financial services. After the series of economic reforms of India in 1991, the saving rate as a % of GDP is increasing . Now, India has one of the highest saving rates in the world, but unfortunately due to lack of financial awareness, the allocation of these savings is not equally productive. Investments by households have been predominantly in secured avenues. Recent scenario of the Indian financial market shows that, much of the financial savings of the household sector are in the form of bank deposits (around 30 % in the 2000s), life insurance funds (22 %in the 2000s as against 9.6 %in the 1980s), and pension and provident funds (16.5 % in the 2000s as against 23% in the 1980s). There has been a decline in the proportion of pension and provident funds, particularly since the late 1990s. Shares and debentures accounted for 8.3 per cent of total financial savings in the1980s; their share increased to nearly 13 percent in the 1990s before declining to 4.8 per cent in the 2000s. **Table 1** below shows the gross Domestic savings in India from 2006-07 to 2013-14. The values shown in Table 1 reveal that out of the total Gross domestic savings, a major portion is contributed by household. It also shows that Indian people mostly invest in physical assets rather than financial savings i.e. stock market securities. Such lack of interest in financial savings can be due to financial illiteracy.

TABLE-1: DOMESTIC SAVINGS IN INDIA (% OF GDP)

Year / Types of savings	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11	2011- 12	2012- 13	2013-14 (Estimated)
Gross Domestic Savings	34.6	36.8	32.0	33.7	34.0	30.8	31.0	32.4
Household Savings (a+b)	23.2	22.4	23.6	25.2	23.5	22.3	22.8	22.7
Financial savings (a)	11.3	11.6	10.1	12.0	10.4	8.0	9.6	10.0
Saving in physical assets(b)	11.9	10.8	13.5	13.2	13.1	14.3	13.2	12.7

Source: Compiled from data retrieved from website of Central Statistical Organisation (India)

Conclusion

For the long term development and economic growth of a nation ,saving and investment is an important aspect. It acts as a contingency for individuals during financial crisis and economic downturns. Financial Literacy is an important determinant of individual saving. To increase savings amongst households, government should increase efforts in promoting financial literacy through basic educational programs pertaining to financial issues. The mere act of planning for retirement is a strong predictor of retirement wealth. India's growth process has been almost stable. The role of savings and investment in proving the fundamental growth impulses in the economy is one major factor for the development of the country. Savings and investment have been considered as two critical macro-economic variables with microeconomic foundations for achieving price stability and promoting employment opportunities thereby contributing to sustainable economic growth. In fact, as a society, we are yet to fully recognize the need and potential of financial literacy.

The study on pattern of saving behaviour in rural areas is an important indicator for economic development of the country and can also help to define the factors influencing the saving pattern and to analyze certain constraints in the saving attitude in the rural areas. Most of the rural people have a discouraging attitude towards saving. Saving may be in form of physical or financial. In rural areas people save in different ways. Some people save in form of liquid assets or cash in hand, some save in form of gold, silver, and other precious metals, some save in form of paddy or cereals measured in terms of sack, saving in terms of animals like goats, pigs, cows, buffaloes, ox and in form of assets like cycle, scooter, radio, chair etc are done. Income is an important determinant of savings i.e Income is positively related with savings. When the income of the individuals increases, savings also increases and when the income of the individuals decreases the rate of savings also decreases. The change in income signifies the changing growth rate in savings.

However, when we talk about the savings of the rural poor communities there are a lot of limitations like less income, more consumption, large family size, no saving opportunities available, lack of availability of the banks and the other financial institutions for which they are reluctant to save. It is found that the educational status of the rural households is lower than the general households. An increase in the financial institutions like banks, micro finance institutions, SHGs and other local banks has provided an opportunity to the rural people to save more. Increasing awareness amongst the people for their future security has made them inclined to save. The degree of change in savings of the rural households as compared to urban communities is not much but still has brought a revolution in the pattern of savings of the rural households.

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