

## **Financial Literacy - A comparative Study of Southern Region of India**

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### **ABSTRACT**

*Nowadays financial markets are becoming more complex with a wide range of financial products and services. Financially literate individuals can make right financial choices to ensure their financial wellbeing. Financial literacy is considered as a vital tool for supporting financial inclusion initiatives. This paper is intended to examine the financial literacy of southern region of India. On an average, southern region scored 25 percent in financial literacy which is higher than the national average. Among the southern region, Kerala state scored (36 percent) highest level in financial literacy followed by Karnataka. In this region, Puduchery scored the lowest level in financial literacy. There is wide spread gender gap in financial literacy, females scored lower level of financial literacy compared to males in southern region. Policy makers should take specific measures to enhance financial literacy for the people.*

**Keywords:** Financial Literacy, Financial Attitude, Financial Behaviour, Financial Knowledge.

### **I. Introduction**

The Indian financial sector is growing rapidly .Well developed financial system is the back bone of the nation, as the financial system act as an intermediary between the savers and investors which ensures economic growth. Nowadays financial markets are becoming more complex with a wide range of financial products and services. Hence, the significance of financial awareness is continually increasing. Appropriate understanding of basic financial concepts is essential for the proper financial management of individuals. Financially literate individuals can make right financial choices which will ensure their financial wellbeing. Former deputy Governor of the Reserve Bank of India, K.C. Chakrabarty (2013), opines that financial literacy will accelerate financial inclusion by creating demands for financial products and services and enable the people to be aware of the needs and benefits of the financial products and services.

The Organization for Economic Co-Operation and Development (OECD) defines financial literacy as, “a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” According to RBI, financial literacy means “providing familiarity with and understanding of financial market products, especially rewards and risks, in order making informed choices” As per S& P global Fin Lit survey 2014, worldwide , 33 percent adults and 24 percent of Indian adults are financially literate.

Proper understanding of financial products and services is essential for the individuals to take well informed financial decisions. Lower levels of financial literacy lead to unsuitable financial decisions. According to OECD (2017), “financial literacy is universally recognized as a core component of the financial empowerment of individuals”.

In order to generate financial awareness, RBI has created large volume of literature and uploaded on its website in 13 languages and has designed a booklet FAME (Financial Awareness Messages). The RBI also developed personalized financial literacy content for five target groups' viz. Farmers, Small entrepreneurs, School children, Self Help Groups and Senior Citizens. Financial Literacy Week was observed during June 4-8, 2018. The week spotlighted four consumer protection messages viz; Know your Liability for unauthorized electronic banking transaction , Banking Ombudsman , Good practices for a safe digital banking experience and Risk Vs Return.

### **II. Objectives of the Study**

Following are the specific objectives of the study:

1. To make a comparative study of financial literacy among the Southern region of India.
2. To study rural urban gap in financial literacy in Southern region.
3. To study gender gap in financial literacy in Southern region.

### **III. Data Source**

This study makes use of secondary data. The study mainly used National Centre for Financial Education Report on financial literacy and financial inclusion, 2015. Data about financial attitude, financial behaviour and financial knowledge and financial literacy were compiled from fact sheets of National Centre for

Financial Education Report on financial literacy and financial inclusion, 2015 of Kerala, Tamil Nadu, Karnataka, Puducherry, Lakshadweep and Andhra Pradesh.

#### IV. Review of Literature

This section provides an overview of few studies related to financial literacy.

Lusardi and Mitchell (2011) argue that financial literacy enable people to make more informed financial decision in an economically integrated and complex world. They opined that the poor financial decision-making can have significant costs not only for individuals but also society in general, as it may leads to global financial crisis.

Lusardi and Scheresberg (2013) argue that more financially literate are much less probable to have engaged in high-rate borrowing. Most high-cost borrowers in United States exhibit very low levels of financial literacy, i.e., they lack numeracy and do not possess knowledge of basic financial concepts.

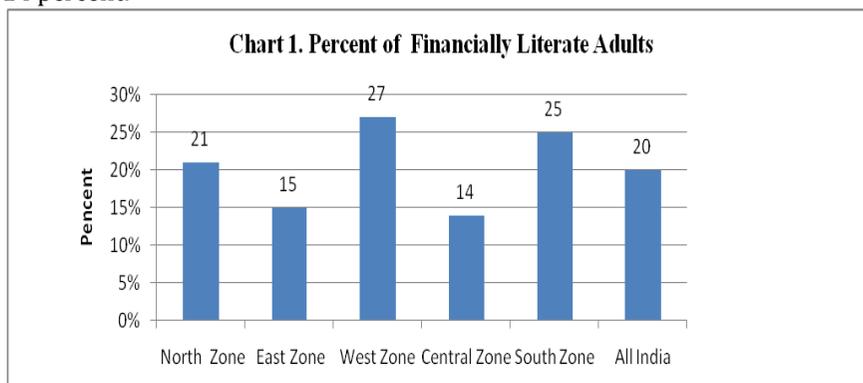
Srivastava (2018) found that financial inclusion, general literacy and financial literacy are highly correlated. Factors like age, gender, religion, education level influence the level of financial literacy. Financial inclusion, literacy and financial literacy play an important role in improving county's economic growth

Kiliyanni and Sivaraman (2016) attempted to measure level of financial literacy among the educated young adults in Kerala. Their studies reveal that only 44 percent young adults answered the questions correctly so that financial literacy among them is low. Study observed the perception-reality gap in financial literacy among the young adults in Kerala. The study found that gender, marital status, age, religion, education, the discipline of study, occupation, work experience, income, and parents' education and their occupation have an influence on financial literacy.

Dube et al. (2017) in their study found that financial literacy level in Uttar Pradesh is comparatively very lower than the national average and central zone average. Out of four states in the central zones, Uttar Pradesh scored third position in financial literacy. However, in terms of financial literacy components, Uttar Pradesh scored third in financial attitude, fourth in financial behavior and third in financial knowledge.

#### V. Financially Literate Adults in Different Zones of India

As per National Centre for Financial Education (NCFE) 2015, a financial literacy survey reveals that 20 percent Indian adults are financially literate. Among the five zones of India, West Zone scored highest financial literacy of 27 percent followed by south zone 25 percent. Central zone scored lowest financial literacy level of 14 percent.



Source: Data Compiled from the National Centre for Financial Education Report on financial literacy, 2015.

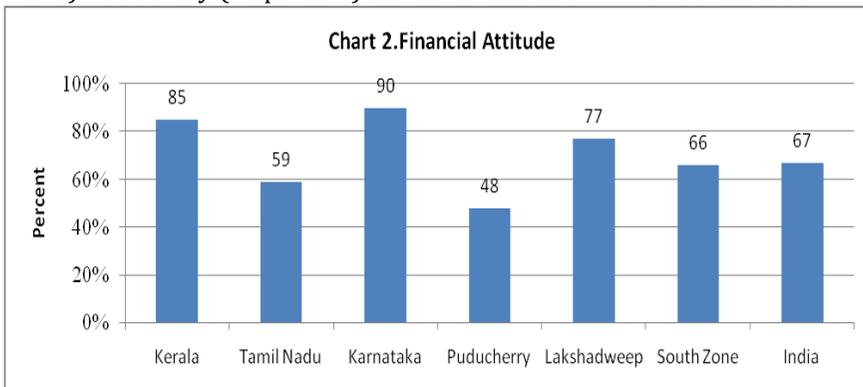
There is a wide variation in financial literacy among different zones of India. Financial literacy level in India is very poor.

#### VI. Components of Financial Literacy in Southern Region

In general, financial literacy is a combination of financial attitude, financial behaviour and financial knowledge. Financial attitude incorporated attitude towards spending, saving and planning money. Financial behaviour take into consideration of manners of people which affect their financial wealth and wellbeing. It considers questions related to household budget, cautious purchases, savings, long term financial goals, observing financial affairs, timely payment of bills and affordability. Financial knowledge examines the awareness of the people about financial products and services like interest, risk-return, inflation and diversification. Southern region of India consist of Kerala, Tamil Nadu, Karnataka, Puducherry, Lakshadweep and Andhra Pradesh.

**VI.1 - Financial Attitude in Southern States of India**

Among the southern region, Karnataka state scored (90 percent) highest level in financial attitude followed by Kerala (85 percent). Puducherry (48 percent) scored lowest level in financial attitude.

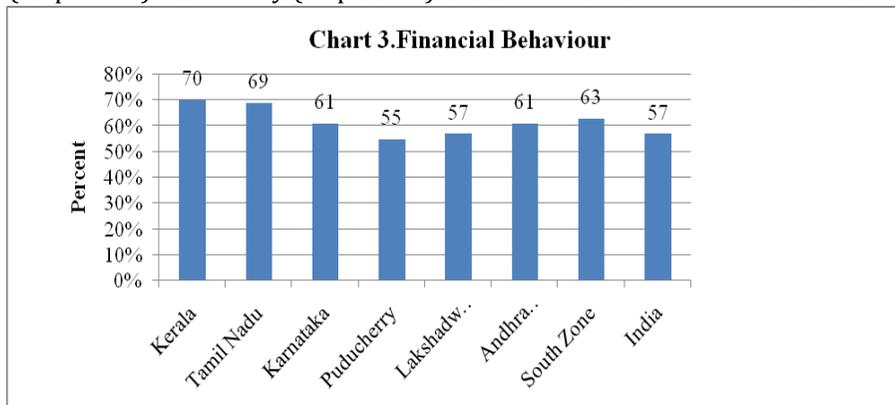


Source: Data Compiled from the National Centre for Financial Education Report on financial literacy, 2015

On an average, southern region scored 66 percent in financial attitude which is slightly lower than national average.

**VI.2 - Financial Behaviour in Southern States of India**

Among the southern region, Kerala state scored (70 percent) highest level in financial behaviour followed by Tamil Nadu (69 percent). Puducherry (55 percent) scored lowest level in financial behaviour.

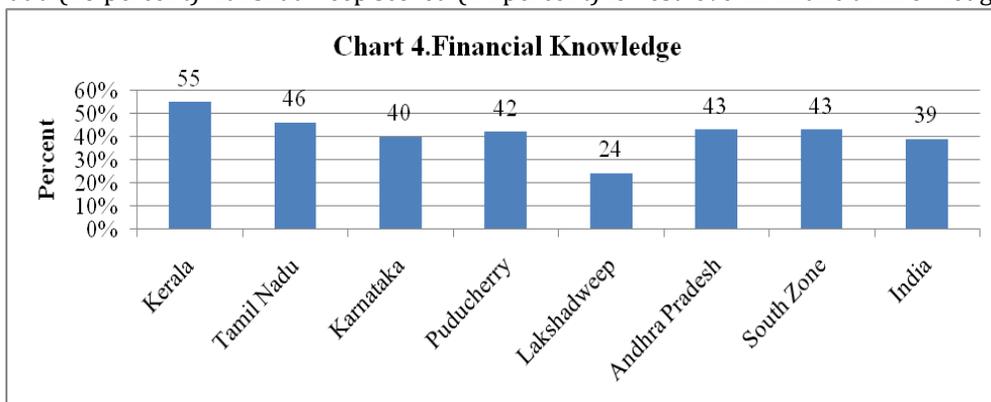


Source: Data Compiled from the National Centre for Financial Education Report, 2015

On an average southern region scored 63 percent in financial behaviour which is higher than national average.

**VI.3 - Financial Knowledge in Southern States of India**

Among the southern region, Kerala state scored (55 percent) highest level in financial knowledge followed by Tamil Nadu (46 percent). Lakshadweep scored (24 percent) lowest level in financial Knowledge.

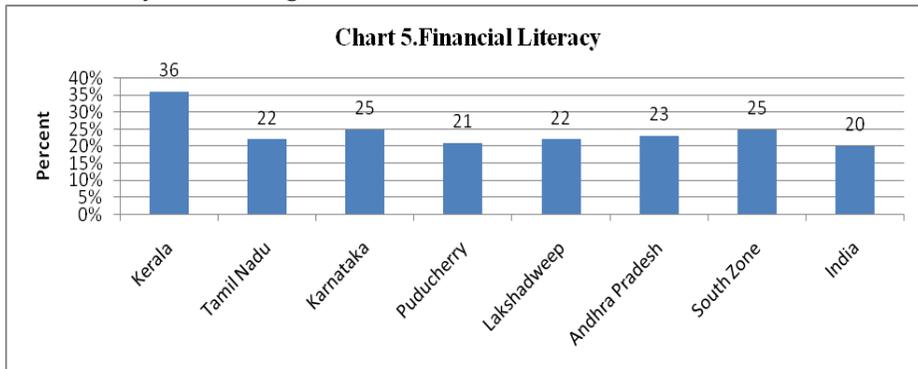


Source: Data Compiled from the National Centre for Financial Education Report on financial literacy, 2015.

On an average, southern region scored 43 percent in financial knowledge which is higher than national average.

**VI.4 - Financial Literacy in Southern States of India**

Financial literacy is a combination of financial attitude, financial behaviour and financial knowledge. It is the sum total of financial attitude, financial behaviour and financial knowledge scores. Among the southern region Kerala (36 percent) state scored highest level in financial literacy followed by Karnataka (25 percent). Puducherry (21 percent) scored lowest level in financial literacy. On an average southern region scored 25 percent in financial literacy which is higher than all India level.



Source: Data Compiled from the National Centre for Financial Education Report on financial literacy, 2015  
 On an average, southern region scored 25 percent in financial literacy which is higher than all India level 20 percent.

**VI.5 - Rural Urban Gap in Financial Literacy**

In Kerala, Karnataka and Puducherry urban area scored highest level in financial literacy than the rural area. All India level also urban area scored highest level in financial literacy than the rural area. But the rural areas in Tamil Nadu, Lakshadweep and Andhra Pradesh scored highest level in financial literacy than the urban area.

**Table 1 - Rural Urban Gap in Financial Literacy in Southern Region**

States	Urban(percent)	Rural %	Gap%
Kerala	36	35	1
Tamil Nadu	21	25	-4
Karnataka	30	19	11
Puducherry	21	14	7
Lakshadweep	19	34	-15
Andhra Pradesh	21	25	-4
South Zone	25	26	-1
India	25	15	10

Source: Data Compiled from the National Centre for Financial Education Report on financial literacy, 2015.

In South zone all together rural area scored highest level in financial literacy than the urban area. All India level rural urban gap is 10 percent.

**VI.6 - Gender Gap in Financial Literacy**

There is wide spread gender gap in financial literacy. Females scored lower level of financial literacy compared to males. According to S& P global FinLit survey 2014 worldwide 30 percent females are financially literate compared to 35 percent males. In southern region gender gap is highest in Lakshadweep(9 percent) followed by Kerala and Karnataka(6 percent).Gender gap is lowest in Puducherry(3 percent).

**Table 2 - Gender Gap in Financial Literacy in Southern Region**

States	Male %	Female%	Gender Gap%
Kerala	39	33	6
Tamil Nadu	25	20	5
Karnataka	28	22	6
Puducherry	22	19	3
Lakshadweep	27	18	9
Andhra Pradesh	25	21	4
South Zone	28	23	5
India	23	16	7

Source: Data Compiled from the National Centre for Financial Education Report, 2015

Gender significantly influences financial literacy level. In South zone all together gender gap is 5 percent, whereas in all India level, the gender gap is 7 percent.

## VII - Conclusion

Financial literacy enables people to prepare well to deal with rapid changes in the financial system. Financial literacy ensures the financial wellbeing of all sections of the society especially vulnerable sections of the society. Financial literacy enables common man to make right financial choices in an increasingly complex financial world. Financial literacy is considered as a vital tool for supporting financial inclusion initiatives, which will act as a catalyst for the proper growth of the economy. On an average, southern region scored 25 percent in financial literacy. There is wide spread gender gap in financial literacy and there is 5 percent gender gap in financial literacy among the southern region. Policy makers should take specific measures to enhance financial literacy of the people.

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