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A Study on Financial Literacy: An Overview of the Scenario in India

BHAVNA*[1] AND BHUSHAN SINGH[2]
[1]Research Scholar and [2]Assistant Professor
Department of Commerce, Central University of Haryana, Mahendergarh (Haryana) India

*Corresponding Author

ABSTRACT

Financial literacy is one of the most critical factors that allow people to make wise and informed decisions regarding finances. It is a basic element in terms of empowering individuals to manifest their skills in managing different financial issues. In the context of the rapid evolution of the Indian economy and advancement of technologies, the knowledge about the degree of financial literacy of the Indian population gains even more significance. The current research paper will seek to give a comprehensive and detailed overview of the situation in India regarding financial literacy among the population relying on the information obtained in the "NCFE Financial Literacy and Inclusion Survey" that was conducted in 2019 and which encompassed a very wide and multidimensional representation of 29 states and 2 union territories. The sample size of the survey is large and impressive (75,140 people, rural and urban areas) and can be used to examine the financial literacy of various groups of the population. The research is extremely comprehensive to determine the level of knowledge on the fundamentals of financial concepts among the participants, their knowledge on financial products and services and the level at which they are able to implement their own finances. The findings of the study demonstrate that the overall financial literacy level in India stands at 27 and that it portrays a big disparity among states and union territories. There are higher geographical areas with financial literacy levels above the national average and others with less literacy levels. The analysis of the study in order to evaluate the effects of education and income rates and occupational categories on financial literacy provides the detailed information on the fact that the three factors influence the formation of the attitudes of people in relation to financial issues and how they can make the informed decisions about finance. The research can be immensely useful to policy makers, financial institutions, and educators to develop well-informed policy and programs in India within the area of financial literacy as the research is able to create a lot of information regarding the prevailing situation. It is important to note that financial literacy development is the foremost priority of the study that takes place through the general educational programs and the sole aim of which is to improve the financial situation of the population and create a national financial inclusion on a massive scale.

Keywords: Financial literacy, Indian economy, Indian population, Urban and rural areas

INTRODUCTION

One of the factors that enable individuals to make informed and prudent choices about finances are financial literacy which is regarded as one of the most significant factors to consider. It is a fundamental aspect as far as empowering the individuals to express their abilities in handling various financial matters is concerned. Taking into account the rapid growth of the Indian economy and the technological advancement, the perception of the financial literacy level of the Indian population obtains even more significance. The proposed research paper will seek to offer a comprehensive and in-depth analysis of the fintech literacy state in India, relying on the information retrieved in the "NCFE Financial Literacy and Inclusion Survey", which was conducted in 2019 and covered a multidimensional and multifaceted representation of 29 states and 2 union territories. The sample size is large and high and it includes 75,140 people (both rural and urban regions) which will give an

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opportunity to examine the degree of financial literacy of the various groups of people. The research is quite comprehensive in order to determine the knowledge of the participants about the fundamentals of financial concepts, their grasp on financial products and services and how they can implement their own finances in an efficient way. The findings of the study suggest that the overall financial literacy level in India stands at 27% and it reflects high interstate and interunion territory disparities. Certain geographical areas possess higher levels of financial literacy as compared to the national average and other areas possess lower literacy levels. The analysis employed in the study to evaluate the influence of education and income rates and occupational categories on financial literacy provides detailed information on the fact that the three variables are significantly involved in shaping the attitudes of individuals towards financial matters and the way of making informed decisions concerning finances. The researchers can be of significant advantage to the policymakers, financial institutions and teachers to create well-informed policy and programs in India in the area of financial literacy as the research will offer much information on the existing scenario. The research highlights the paramount importance of promoting the growth of financial literacy by means of the overall educational initiatives with the overall goal of enhancing the financial status of individuals and establishing large-scale financial inclusivity in the country. The term Financial Literacy has been defined by the "Organisation for Economic Co-operation and Development" as "knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life"(*India - OECD*, n.d.). "OECD focused on three basic comprehensive dimensions of financial literacy: financial knowledge, financial behaviour and financial attitude" (OECD, 2005, 2013, 2014; OECD-INFE, 2011)

Financial literacy encompasses the proficiency to adeptly administer an array of financial aptitudes, encompassing the management of personal finances, the establishment of budgets, and engagement in investment activities (Klapper and Lusardi, 2020). Recently, the accessibility of financial investments and services has experienced widespread proliferation across diverse economic strata (Goyal and Kumar, 2021).

The financial literacy levels among both the youth and adult population of the Indian community have had an upward trend, which can be largely accredited to a variety of reasons which include, but are not limited to, technological changes and increased media coverage (Lusardi *et al.*, 2009). The Government of India along with other regulatory bodies is also showing unbending interest in promoting development in this sector by executing financial literacy courses, workshops and programs. It is important to note that the use of online financial services in India has been experiencing a tremendous increase with various functionalities including mobile banking, online payment system, and insurance services (Goyal and Kumar, 2021). These advancements have tangibly contributed to the augmentation of financial literacy within the country, characterized by heightened awareness and enhanced accessibility to insurance and banking facilities. This advancement is supported by a remarkable quintupling of digital transactions in India, surging from 1,004 crores (10.04 billion) in the fiscal year 2016-17 to 5,554 crores (55.54 billion) in the fiscal year 2020-21. Furthermore, the Fintech industry is expected to exhibit a substantial "Compound Annual Growth Rate (CAGR)" of 20% in the foreseeable future, leading it to achieve an impressive value of US$ 138 billion by the year 2023. This projection reflects a significant upsurge from its recorded worth of US$ 66 billion in the year 2019 (IBEF, 2022).

"Financial literacy, a crucial aspect of personal finance, encompasses the comprehension and management of various financial matters such as real estate, insurance, investing, saving, tax planning, and retirement. It involves understanding essential financial concepts like compound interest, risk diversification, advantageous savings methods, and consumer rights" (Garg and Singh, 2018).

In the realm of financial literacy studies, these three aspects are considered paramount. They encompass the acquisition of essential financial knowledge, an understanding of available financial instruments and offerings, and the competence to navigate personal financial matters adeptly while leveraging appropriate financial services (Cole *et al.,* 2009).

The "World Bank" differentiates between the terms "financial literacy" and "financial capability." Financial literacy primarily refers to Financial knowledge constitutes an essential component within the realm of financial capability, which, in turn, encompasses a more comprehensive spectrum encompassing not only knowledge but also behavior and the intricate interplay between knowledge, skills, and attitudes. As posited by Murray (2010), financial literacy embodies a collection of capabilities that involve general literacy, adept problem-solving ability, and proficiency in numerical skills, all of which are applied in the context of personal finance. This construct is context-dependent and is customarily adapted to suit the diverse socioeconomic circumstances and particular challenges confronted by individuals, including those pertaining to financial exclusion. Financial literacy, according to (Atkinson and Messy, 2011) can be understood as a cumulative totality of conscious, erudition, and competencies, mind-sets and conducts, which are needed in good financial decision-making and, ultimately, in individual financial well-being. The so-called financial literacy, in its turn, according to the position of the so-called National Council on Economic Education (NCEE, 2005) means to know the key principles of economics, the deep realization of how the economy operates, and the skills of mastering the required language of economics. Those definitions and theoretical frameworks emphasize the multi-levelity and multi-dimensionality of the notion of financial literacy, which consists of theoretical knowledge and the practical application in the sphere of personal finances decision-making. It is based on this perception of financial literacy that the current research project will seek to explore the amounts, causes and consequences of financial literacy within Indian environment. Owing to understanding critical knowledge about the financial literacy landscape, policy-makers, financial institutions, and educators can come up with certain measures that will help to improve the level of financial literacy, promote financial inclusiveness and enhance financial wellbeing of citizens (IBEF, 2022).

Review of Literature:

The research (Garg and Singh, 2018) demonstrates that there is a common feature among young people across the world, as they are financially illiterate, which raises some concerns. Financial literacy of youths is a socioeconomic and demographic phenomenon and financial knowledge is correlated with financial attitude and financial behaviour. Key finding (Rai *et al.*, 2019). A survey of 394 female employees examining this relationship with financial literacy: with the help of structured equation modelling. Study findings indicate that there is significant relationship between financial behaviour and attitude with financial literacy of working women, which is more significant than financial knowledge. In addition, the study highlights a terrifying lack of financial literacy in working women in India (Singh, 2021). According to the study's findings, there are significant latent issues that affect the adoption and use of financial services, the most important of which are "operational and implementation challenges," "financial literacy," and "affordability." Together with the "access" variable, the "usage" factor has an additional impact on financial inclusion.

(Das and Maji, 2023) A study was undertaken to assess the dimensions of financial literacy (FL) in the South Asia region, focusing on farmers. The results revealed that farmers from Bangladesh exhibited a relatively higher level of financial literacy, with 48.75% falling into the "Moderate" category. In contrast, farmers from Pakistan and India demonstrated lower FL levels, with 38.96% and 32.61% respectively being categorized as "Poor". The study further identified significant factors influencing the FL of farmers across all three Asian nations, notably farm ownership and educational attainment. Moreover, in both India and Pakistan, farmers' financial literacy levels were positively influenced by their financial confidence and gender.

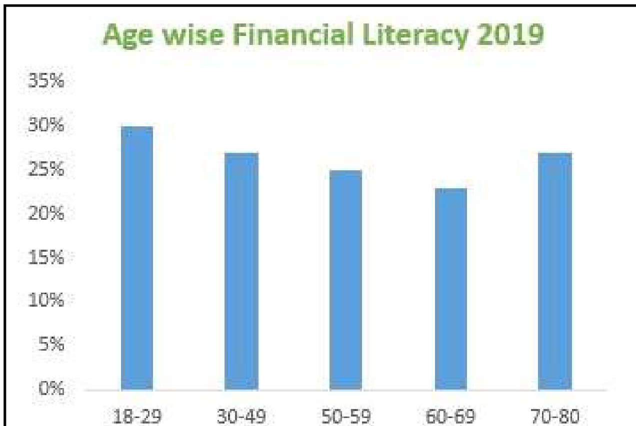
(Atikson and Messy, 2012) "FL is crucial for proper money management, appropriate financial planning (both short- and long-term), encouraging savings and investments, choosing the right financial products and services, risk diversification, encouraging people to choose insurance products, fostering self-control when using credit and debit cards, participating in the stock market and mutual funds, planning for housing and retirement, and making the right borrowing decisions". According to (Klapper *et al.*, 2012), The possession of adequate financial literacy is associated with favourable transformations in financial behaviour, exemplified by heightened savings proclivity and improved access to credit opportunities.

Objectives of the study:

- To provide an overview of the current state of financial literacy.
- To explore the role of government initiatives in promoting financial literacy.

DATA AND METHODOLOGY

This research paper draws upon data derived from the NCFE Financial Literacy and Inclusion Survey, 2019, which encompasses a comprehensive coverage of 29 states and 2 union territories within India. The survey, boasting an extensive sample size of 75,140 individuals, encompasses 47,905 participants residing in rural areas and 27,235 individuals hailing from urban locales. In accordance with the established criteria set forth by the "Organization for Economic Cooperation and Development (OECD)", an individual is deemed financially literate if they achieve a composite score of no less than 15 out of 22, encompassing a minimum score of 3 in the realm of financial attitude, 6 in economic behaviour, and 6 in financial knowledge. The findings presented in the NCFE report indicate that the prevailing financial literacy rate in India is 27%. Significantly, among the collective count of 35 states and union territories, around 19 states and union territories (54%) surpass the national average in terms of financial literacy rates.Goa, Chandigarh, and Delhi rank as the leading states, each exhibiting financial literacy rates surpassing 50%. In stark contrast, Odisha, Sikkim, and Chhattisgarh demonstrate the lowest financial literacy rates, with proportions of 11%, 10%, and 9%, respectively. A more detailed analysis of the data uncovers that 33% of respondents residing in urban areas and 24% of respondents residing in rural areas demonstrate financial literacy. When considering gender distribution, financial literacy is observed among 29% of male respondents, while 21% of female respondents exhibit a similar level of financial knowledge. The age group that is identified as the most financially educated among the other age groups is the age group of 18-29. Moreover, there is the greatest prevalence of financial literacy in those who are categorized under the general class. The analysis also brings out the huge association of the level of education and income with the level of financial literacy where the lowest level of education and income implies lower financial literacy level. On the occupational type groupings, the government workers have the highest financial literacy followed by the private workers, retired workers, self-employed workers and the students. The results are quite useful as they paint the picture of the differences in the financial literacy rates between various demographic groups and the importance of the special interventions that can be developed to improve the financial literacy levels in a certain group (Fig. 1). Knowledge of such trends is of paramount significance to policymakers, banking organizations, and educationists who can be able to formulate specific action plans and initiatives that lead to financial literacy levels, inclusivity, and the overall financial health of people in various categories of the community. As shown in the Table 1, the 10 countries who have the highest financial knowledge were rated the highest (OECD/INFE 2023). The first one is Hong Kong whose score was 91/100, followed by Germany (85) and Estonia (78). Most of the European economies (Germany, Estonia, Hungary, Cyprus, Poland, Croatia, Luxembourg) and Asia supported by Hong Kong, Korea, and Thailand take the lead of the list. In general, the scores show that better economies with good financial systems and education policies are likely to have a higher level of financial literacy. The Table 2 puts emphasis on the 10 most financially literate states/UTs in India. Chandigarh and Delhi rank as the highest with a score of 0.63 and 0.59 respectively with high financial awareness in urbanised areas. Himachal Pradesh and Goa are also doing well with equal rural- urban literacy. Southern states such as Karnataka, Kerala, Tamil Nadu, and Telangana take the centre stage implying relatively superior financial inclusion. All in all, the cities/UTs and progressive states occupy the leading positions, and the rural gaps continue to affect the averages. According to the data the Table 3 shows that, there is an obvious gender divide in terms of financial literacy in India: approximately every second man is financially literate as opposed to every second woman. This means that there is a high probability of men having higher financial knowledge and skills as



Source: Financial Literacy and Inclusion in India Survey Report, 2019

Fig. 1 : Age wise Financial Literacy

compared to women who are lagging behind and this makes it necessary to have specific financial education and inclusion programs targeting women.

Table 1 : Top 10 Highest Financial Knowledge Country

Rank	Country / Economy	Financial knowledge score (out of 100)
1	Hong Kong (China)	91
2	Germany	85
3	Estonia	78
4	Hungary	75
5	Korea (Republic of Korea)	74
6	Cyprus	72
7	Poland	68
8	Thailand	67
9	Croatia	66
10	Luxembourg	65

Source : OECD/INFE 2023

Table 2 : Top 10 Highest Financial Knowledge States

Rank	State / UT	Rural FLI	Urban FLI	Avg FLI (rural+urban)/2
1	Chandigarh	0.68	0.58	0.63
2	Delhi	0.73	0.45	0.59
3	Himachal Pradesh	0.58	0.55	0.565
4	Goa	0.53	0.53	0.53
5	Pondicherry (Puducherry)	0.59	0.44	0.515
6	Karnataka	0.49	0.53	0.51
7	Kerala	0.54	0.42	0.48
8	Telangana	0.49	0.45	0.47
9	Uttaranchal (Uttarakhand)	0.50	0.42	0.46
10	Tamil Nadu	0.48	0.42	0.45

Source: NIS/AIDIS Data

Table 3 : Gender wise Financial Literacy

Group	Financially literate (%) — NCFE 2019 (Exec. Summary)
Males	~29%
Females	~21%

Sources: NCFE's Financial Literacy and Inclusion Survey 2019

Significance of Financial Literacy in India:

The financial literacy is of paramount significance to a country, as it is directly related to the economy. The implications of financial literacy in India are relevant and they are discussed as follows: 1. Rural Development: The financial literacy may serve as the stimulus to the development of the rural territory. By disseminating knowledge about the available resources and advocacy of rational utilization of the same resources, the rural residents can be empowered and, consequently, help them to experience socio-economic development. 2. Borrowing facilitation: According to the research carried out by the Reserve bank of India (RBI), a large number of 42.9 pours into the informal borrowing resulting to the excessive interest rates. Sound financial education will be capable of molding the small traders and entrepreneurs to make a prudent decision regarding borrowing and hence they can utilize the available resources to the optimum. 3. Enabling Business Transactions: 280 million bank accounts in India have been opened since the introduction of "Pradhan Mantri Jan Dhan Yojana project. This growth has not only made business transactions easier to carry out but it has also greatly contributed towards the use of cashless transaction. 4. Enabling the Development of MSMEs (Micro, Small, and Medium Enterprises): MSMEs are major contributors to India Gross Domestic Product (GDP), contributing 29% of the GDP, with half of the exports in the country coming out of this industry. Financial literacy presupposes playing a crucial role in enhancing the development of small business and nurturing the existence of new business in the market.

The Indian government has initiated various initiatives to promote financial literacy and inclusion within the country:

– "Reserve Bank of India (RBI)": RBI has implemented comprehensive financial education programs, encompassing both basic and sector-specific financial knowledge. These initiatives include the dissemination of financial literacy guides, diaries, and posters, which cover essential aspects such as savings, interest concepts, time value, inflation, and other related topics. Additional content focuses on areas relevant to businesses, including "ATMs, payment systems, Ponzi schemes, and financial awareness messages".
– "Securities and Exchange Board of India (SEBI)": "SEBI (Securities and Exchange Board of India)" lays considerable emphasis on augmenting fundamental financial education and specialized knowledge relevant to the financial sector. Given that the capital and securities markets of India are regulated by the single authority called SEBI, the regulatory authority engages in activities such as mass media campaigns such as the World Investor Week to promote financial awareness. Better still, SEBI

has an exclusive investor site which is a gold mine of resources and information to investors.

– Insurance Regulatory and Development Authority of India (IRDAI)-IRDAI-Just like any other regulatory authority, IRDAI is concerned with the development of content through brochures, handbooks among other educational material. The regulatory body has further imposed a compulsory board approved policy on the insurers as well as carried out seminars and quiz programs. The moves are focused on enhancing financial literacy in the insurance industry. Case: Pension Fund Regulatory and Development Authority (PFRDA) PFRDA released the special site Pension Sanchay in the year 2018 whose purpose was to raise financial literacy specifically regarding the issue of retirement planning. In addition, the Indian government has launched different schemes to increase financial inclusion such as Pradhan Mantri Jan Dhan Yojana, Jivan Jyoti Beema, Atal Pension Yojana, etc. These plans enable the accessibility of banking services and create awareness in respect to general insurance. Moreover, the government provides financial literacy programs targeted at school students with the emphasis on various issues like children financial literacy, retirement investment, commodity future markets, and insurance. These campaigns are meant to educate and create an awareness on the youthful population. To sum up, financial literacy should be prioritized in India and the results of such actions could bring various advantages to the country such as rural development, informed borrowing practices, simplified business activities, and strengthening of MSMEs, which have a multitask effect on the entire economic development of the country. Financial literacy can be used to boost the general economic growth and enhance the standard living. India has an educated workforce and strong financial education, and it can hope to reach impressive heights. A financially shrewd India would have a huge international influence.

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