



## A Study of Financial Literacy for Financial Inclusion in Mizoram

Dr. Daniel Lalawmpuia<sup>1</sup>, Dr. Zonunmawia<sup>2</sup> and Dr. R. Zoramthanga<sup>3</sup>

### Abstract

Financial Literacy is the first step towards financial prosperity which will empowers the common man with knowledge which enables better financial decision making and ultimately financial well-being. Financial Literacy creates demand for financial products and services, thereby accelerating the pace of financial inclusion as it enables the common man to understand the needs and benefits of the products and services offered by the banks. All segments of the society need financial literacy in one form or the other. This paper attempts to examine the trends and progress of financial literacy and financial inclusion in the country with focusing on Mizoram by showing the present status of financial literacy, by highlighting the important initiatives taken by government in this regard. Further, the main objective of the paper is study the impact of financial literacy for financial inclusion and examining the importance of financial literacy in the country as well as across the globe. It also gives appropriate suggestions to ensure universal financial inclusion.

**Key words:** *Financial Literacy, Financial inclusion, Social Security Scheme*

### Introduction:

Financial Literacy creates demand for financial products and services, thereby accelerating the pace of financial inclusion as it enables the common man to understand the needs and benefits of the products and services offered by the banks. All segments of the society need financial literacy in one form or the other. However, considering that a large segment of our society is financially excluded, financial literacy programs, at present, should primarily focus on the individuals who are vulnerable to persistent downward financial pressures due to lack of understanding in the matters relating to personal finance.<sup>4</sup>

Financial literacy and financial inclusion are twin pillars where financial inclusion acts as supply side for providing financial services and financial literacy acts as demand side making people acquainted with what they should buy. As the main motto of financial inclusion is to provide access to financial services to the masses at an affordable cost, so it is imminent that the masses be financial literate to avail much benefits and augment the process of inclusive growth. Financial inclusion mainly aims at providing the basic financial services and other financial services like insurance, mutual funds etc which can only be done by improving financial literacy.<sup>5</sup>

<sup>1</sup> Assistant Professor, Department of Economics, Pachhunga University College, Mizoram email: [danielvarte12@gmail.com](mailto:danielvarte12@gmail.com)

<sup>2</sup> Assistant Professor, Department of Political Science, Pachhunga University College, Mizoram email: [zotea.biate@gmail.com](mailto:zotea.biate@gmail.com)

<sup>3</sup> Assistant Professor, Department of Statistics, Pachhunga University College, Mizoram email: [aramaralte7@gmail.com](mailto:aramaralte7@gmail.com)

<sup>4</sup> RBI (2013): Financial Literacy Guide, Rural Planning & Credit Department, Mumbai

<sup>5</sup> B Anubha & S, Veermati (2017): "Financial Literacy Paving way for Financial Inclusion in India", *International Journal of Engineering Technology Science and Research* IJETSRS [www.ijetsr.com](http://www.ijetsr.com) ISSN 2394 -3386 Volume 4, Issue 12

Literacy and Financial Literacy (FL), thus form the most integral part of the Financial Inclusion as, without knowing the fundamentals, the disadvantaged people can continue to be innocent, gullible and in some cases unknowingly irresponsible too. One of the primary objectives of Financial Literacy would be to help the disadvantaged practice thrift and induce them to save, access credit, use the funds to find a better livelihood, earn income and thus join the mainstream from exclusion.<sup>6</sup>

### **Concept of Financial Literacy:**

The literature often uses three terms – financial literacy, financial education, and financial capability-whose overlap can cause confusion. They are, however, distinct pieces of a puzzle, parts of the whole, or steps towards the goal of financial inclusion. Financial literacy is associated with the consumer who has a responsibility to inform himself of the products he purchases and to understand the contracts he signs. It incorporates knowledge, skills and attitudes. Financial education is a key tool to reach this multidimensional goal. Financial capability, on the other hand, is about the context; it engages the financial services sector in its responsibility to offer the right products to its various target markets. Financial inclusion implies an alignment of supply and demand, where financially literate consumers have opportunities to apply their knowledge in a marketplace of appropriate product options.<sup>7</sup>

OECD has defined financial literacy as “a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.”

Financial literacy is the education and understanding of various financial areas including topics related to managing personal finance, money and investing. This topic focuses on the ability to manage personal finance matters in an efficient manner, and it includes the knowledge of making appropriate decisions about personal finance such as investing, insurance, real estate, paying for college, budgeting, retirement and tax planning.<sup>8</sup>

The Organisation for Economic Co-operation and Development (OECD) defines (2005) financial education as “the process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of 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”

<sup>6</sup> UNDP (2012): “Financial Literacy as A Tool for Financial Inclusion and Client Protection”, New Delhi.

<sup>7</sup> UNDP (2014): Report on “Deepening Financial Inclusion” Evidence from Two States”

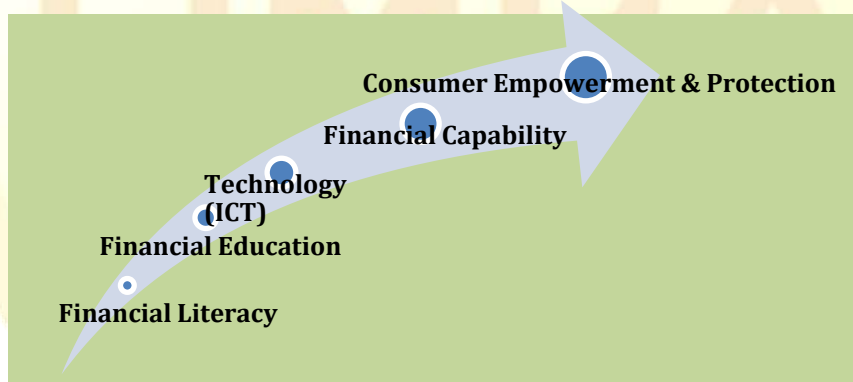
<sup>8</sup> [www.investopedia.com](http://www.investopedia.com)

Graph 1.1 Integrated Dissemination of Financial Literacy for encompassing Financial Inclusion.



Figure: Source UNDP (2012): “Financial Literacy as A Tool for Financial Inclusion and Client Protection”, New Delhi.

Graph 1.2: Journey from Financial Literacy to Empowerment & Protection



### Financial Literacy, why it matters?

Without an understanding of basic financial concepts, people are not well equipped to make decisions related to financial management. People who are financially literate have the ability to make informed financial choices regarding saving, investing, borrowing, and more.

The S&P Global Financial Literacy (FinLit) Survey findings were sobering where more than 150,000 nationally representative and randomly selected adults in more than 140 economies were interviewed during the 2014 calendar year.

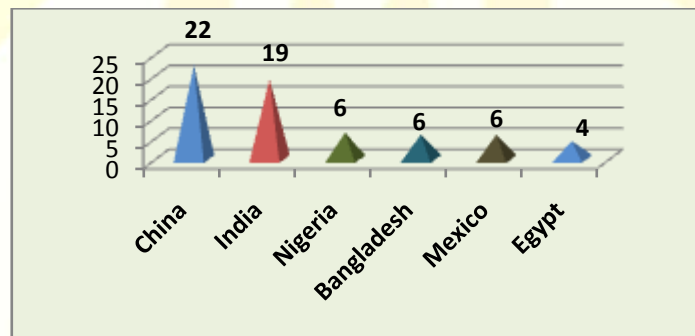
Worldwide, only 1-in-3 adults are financially literate. Not only is financial illiteracy widespread, but there are big variations among countries and groups. For example, women, the poor, and lower educated respondents are more likely to suffer from gaps in financial knowledge. This is true not only in developing economies but also in

countries with well-developed financial markets. People with relatively high financial literacy also tend to have a few things in common, regardless of where they live.

Adults who use formal financial services like bank accounts and credit cards generally have higher financial knowledge, regardless of their income. Even poor people who have a bank account are more likely to be financially literate than poor people who do not have a bank account, and rich adults who use credit also generally have better financial skills than rich adults who do not. This suggests the relationship between financial knowledge and financial services may work in two directions: While higher financial literacy might lead to broader financial inclusion, operating an account or using credit may also deepen consumers' financial skills.<sup>9</sup>

It has been estimated that 1.7 billion adults around the world lack an account. According to Alliance for Financial Inclusion (2017) the number of adults age 15+ without an account in some countries have been presented in the graph 1.3.

**Graph 1.3: Number of adults' (age 15+) without an account in some countries. (in Crore)**



Source: Alliance for Financial Inclusion

### Significance of the Study:

Financial Literacy is the first step towards financial prosperity. Financial literacy empowers the common man with knowledge which enables better financial decision making and ultimately financial well-being.<sup>10</sup>

The often neglected poor also require a range of financial services, such as opportunities to earn, safeguard the hard earned income, or credit to support them in maintaining at least bare minimum levels of sustenance through the year, risk mitigating services like insurance and transferring their earnings to their near and dear who may be staying at other places. It has been often discussed and agreed that one of the critical deprivations in acquiring wealth by poor households is the absence or dearth of the apt and appropriate type of financial services. And the biggest deprivation is lack of knowledge of finance.<sup>11</sup>

To use financial services to their full potential, the low income people need products well suited to their needs and appropriate training and education for adapting to these financial services. Bringing this about requires attention to human and institutional issues, such as quality of access, affordability of products, familiarity and comfort in use, sustainability for the provider of these services, proper training and outreach to the most excluded populations.<sup>12</sup>

<sup>9</sup> Klapper, L et al (2014): Financial Literacy Around the World: Insights from the Standard & Poor's Ratings services Global Financial Literacy Survey, available at <http://www.finlit.mhfi.com>

<sup>10</sup> RBI (2017) :Financial Literacy Week (June 5- 9, 2017)

<sup>11</sup> UNDP (2012): "Financial Literacy as A Tool for Financial Inclusion and Client Protection", New Delhi.

<sup>12</sup> <https://counterview.org/2017/08/21/financial-literacy-in-india-is-still-not-priority-76-of-adults-do-not-understand-basic-concepts/>

**Objectives of the study:**

The main objectives of the present study are:

1. To ascertain the present status of financial literacy in the country with special focus on Mizoram
2. To highlight the important initiatives taken by government in this regard
3. To study the impact of financial literacy for financial inclusion
4. To give appropriate suggestions for financial literacy

**Research Questions:**

1. Has financial literacy improves financial inclusion in Mizoram?
2. Is there any correlation between financial literacy and financial inclusion?

**Research Methodology:**

The present study is mainly based on secondary data. Important sources have been collected from major stakeholders like Reserve Bank of India, NABARD, National Centre for Financial Education, State Level Bankers Committee Report and other sources which have been cited in the references. Further, analysis has been presented with table and simple calculations viz. percentage, average etc.

**Review of Literature:**

According to Dr Subbarao, ex- Reserve Bank Governor of India, “In the Reserve Bank, we treat financial inclusion and financial literacy as twin pillars. Financial literacy stimulates the demand side – making people aware of what they can and should demand. Financial inclusion acts from the supply side – providing in the financial market what people demand”. Raising financial literacy supports social inclusion and enhances the wellbeing of the community.<sup>13</sup>

OECD (2006) has observed that an increasing use of credit cards in OECD countries has led to an increase in personal bankruptcies – in 2003, almost one in 10 US households filed for bankruptcy and the number of private bankruptcies in Austria rose by 11%. And similar problems are arising in countries where credit is becoming more widespread – Korea has experienced large increases in consumer debt, while in Germany there has been an increase in private insolvencies, at least partly due to increased availability of credit.<sup>14</sup>

Research conducted for the OECD’s study on financial education indicates that the level of financial literacy is low in most countries, including in developed countries. In Japan, for instance, 71% of adults surveyed knew nothing about investment in equities and bonds, while surveys in the US and Korea found that high school students failed a test designed to measure students’ ability to choose and manage a credit card or save for retirement.

Perhaps more worryingly, consumers often overestimate how much they know. In an Australian survey, 67% of those taking part claimed to understand the concept of compound interest but only 28% could find the correct answer to a problem using the concept. So before they can even start work on providing financial education to their citizens, governments need to persuade them it is needed.

Research in the United States shows that workers increase their participation in 401(k) retirement savings plans funded by employee and employer contributions when

<sup>13</sup> B Anubha & S, Veermati (2017): “Financial Literacy Paving way for Financial Inclusion in India”, *International Journal of Engineering Technology Science and Research IJETSR* [www.ijetsr.com](http://www.ijetsr.com) ISSN 2394 -3386 Volume 4, Issue 12

<sup>14</sup> OECD (2006): The Importance of Financial Education, Policy Brief

employers offer financial education programmes, whether in the form of brochures or seminars. Mortgage counselling before people take on their loan has been found to be effective in reducing the risk of mortgage delinquency. Consumers who attend one-on-one counselling sessions on their personal finances have lower debt and fewer delinquencies.<sup>15</sup>

According to IIMS Survey conducted (2007) in their study collected the data from 5637 respondents and purposive sampling been done, the respondents were chosen from low income households. The data reveals that formal training programmes are more informative increase awareness in comparison to informal training programmes. Lower level of literacy was observed among respondents in Rajasthan as compared to other states.

Babych, Y., M. Grigolia, and D. Keshelava (2018) have found that nationally representative sample of 1,000 persons were interviewed in 2016. The literacy questions assessed knowledge about simple and compounded interest rate, inflation, financial risks, and effective interest rates (fees and commissions attributed to credits and installments). One of the surprising findings was that only 5.8% of the surveyed population answered all four questions correctly; 42% of the population's knowledge fell in the moderate range (two or three correct answers), while the remaining 52% exhibited low levels of financial literacy (one or no correct answers).<sup>16</sup>

Financial ignorance carries significant costs. Consumers who fail to understand the concept of interest compounding spend more on transaction fees, run up bigger debts, and incur higher interest rates on loans (Lusardi and Tufano, 2015; Lusardi and de Bassa Scheresberg, 2013). They also end up borrowing more and saving less money (Stango and Zinman, 2009). Meanwhile, the potential benefits of financial literacy are manifold. People with strong financial skills do a better job planning and saving for retirement (Behrman et al., 2012; Lusardi and Mitchell, 2014). Financially savvy investors are more likely to diversify risk by spreading funds across several ventures (Abreu and Mendes, 2010).<sup>17</sup>

Not surprisingly, financial literacy rates differ enormously between the major advanced and emerging economies in the world. On average, 55 percent of adults in the major advanced economies—Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States—are financially literate. But even across these countries, financial literacy rates range widely, from 37 percent in Italy to 68 percent in Canada.

In contrast, in the major emerging economies—the so-called BRICS (Brazil, the Russian Federation, India, China, and South Africa)—on average, 28 percent of adults are financially literate. Disparities exist among these countries, too, with rates ranging from 24 percent in India to 42 percent in South Africa.<sup>18</sup>

### **Overview of Financial Literacy in India:**

While a few of us can call ourselves pros in finance, a new survey by Standard & Poor (2014) found that 76% of Indian adults do not understand basic key financial concepts. The survey was carried out in 140 countries, with over 150,000 adults tested on their knowledge of four basic financial concepts - numeracy, risk diversification, inflation, compound interest (saving and debt). The extensive survey highlights that India's financial literacy is lower than the worldwide average, but 'roughly in line with other BRICS and South Asian nations'.

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<sup>15</sup> *Ibid*

<sup>16</sup> Babych, Y., M. Grigolia, and D. Keshelava (2018): Financial Inclusion, Financial Literacy, and Financial Education in Georgia. *ADB Working Paper* 849 Tokyo: Asian Development Bank Institute. Available: <https://www.adb.org/publications/financial-inclusion-financial-literacy-and-financial-education-georgia>

<sup>17</sup> Klapper, L *et al* (2014): Financial Literacy Around the World: Insights from the Standard & Poor's Ratings services Global Financial Literacy Survey, available at <http://www.finlit.mhfi.com>

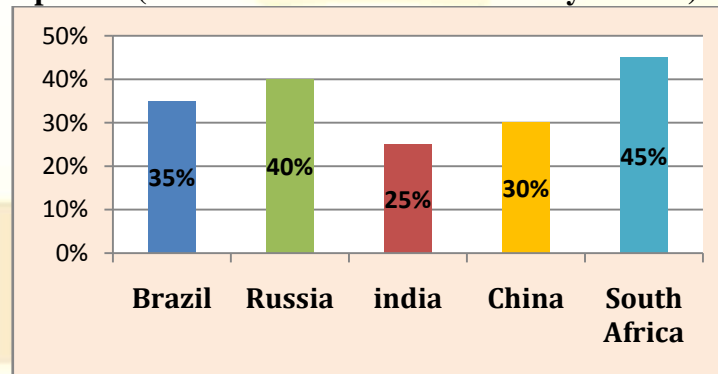
<sup>18</sup> *Ibid*

Other key findings from India were:-

- ❖ About 39% of the adults who had borrowed formal loans are financially literate, while about 27% of formal loan borrowing adults were not.
- ❖ 26% of the adults in the richest 60% of households are financially literate, while 20% of the poorest 40% of households are financially literate.
- ❖ The income gap is evident when the survey is broken down by concept - Poor adults are 21 percentage points less likely than richer adults to correctly answer the compound interest topic correctly. With regard to interest, the gap is 11 percentage points.
- ❖ 38 percent of adults with tertiary education are financially literate; compared to 30 percent of adults with secondary education, and 18 percent of adults with primary education.
- ❖ The survey also found that only 14% of Indian adults save at a formal institution indicating at a weak financial base for most Indians.

Interestingly, the survey also found a gender divide - 73% Indian men are not financially literate while 80% Indian women are not financially literate. India beats the 5 point worldwide gender gap. Among other countries, 57% of the adults in the US are financially literate; while in the UK 67% of the adults are financially literate.<sup>19</sup>

**Graph 1.4 : ( % of adults who are financially literate)**



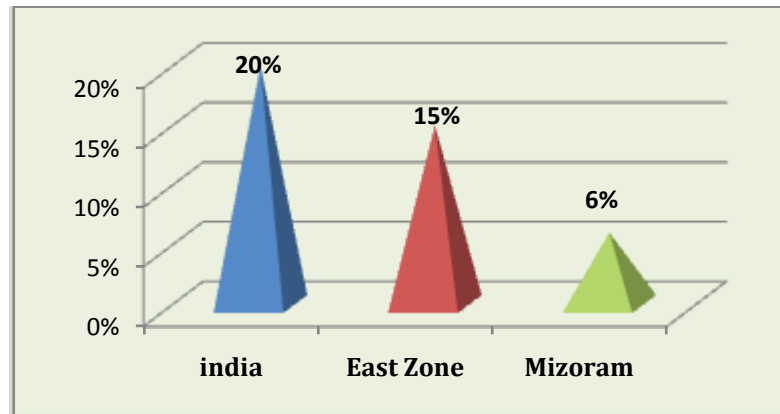
Source: S&P Global FinLit Survey 2014

#### **Analysis of Financial Literacy Status in Mizoram:**

This section will attempt to examine the trends and progress of financial literacy and financial inclusion in the state of Mizoram with available data mostly from National Centre for Financial Education and SLBC report.

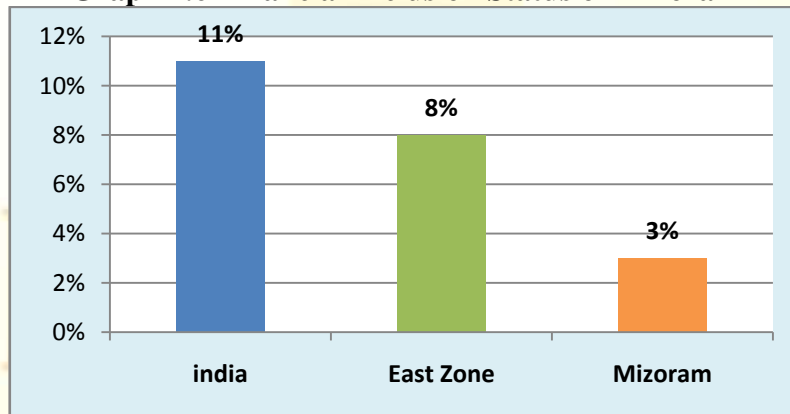
1. **Lowest Financial Literacy in the NE as per NCFE:** As shown in graph 1.5 the overall financial literacy in Mizoram derived from combining scores of Attitude, Behaviour & Knowledge is estimated to be 6% which is comparatively lower than the eastern zonal and national level rate as per NCFE nationwide baseline survey for assessing the state of financial literacy and financial inclusion which was conducted in 2014. On the other hand, Mizoram is the highest literacy rates in the NE States as per 2011 census which seems that there is no positive correlation in the context of Mizoram with regard to literacy and financial literacy as cited above.

<sup>19</sup> <https://www.indiatoday.in/india-today-money/news/story/survey-finds-76percent-of-indian-adults-lack-basic-financial-literacy-277362-2015-12-15> accessed on 26.11.18

**Graph 1.5: FL Status of Mizoram as per NCFE Survey 2014**

Source: NCFE Financial Literacy & Inclusion Survey 2014

2. **Financial Inclusion:** The overall financial inclusion in Mizoram derived from assessment of Awareness, & Usability is estimated to 3% which is comparatively lower than eastern zone and national level rate as highlighted in graph 1.6.

**Graph 1.6 Financial Inclusion Status of Mizoram**

Source: NCFE Financial Literacy & Inclusion Survey 2014

**Important observations by NCFE were highlighted below:**

- ❖ Urban respondents are more financially literate than rural respondents. Same pattern is observed in case of financial inclusion.
- ❖ Financial literacy within males and females is 7% and 6% respectively. Male respondents are more financially included than females.
- ❖ An increasing trend is observed for Financial Literacy as well as Inclusion with increase in income level.
- ❖ Highest level of Financial Literacy and Inclusion is observed in case of retired persons followed by Government employees and Private Employees.
- ❖ In case of self-employed respondents, more than 5% are found financially literate. While financial inclusion is similar in case of Non-Agriculture self-employed compared to Agriculture self-employed.



### 3. Status of Financial Literacy Centre in Mizoram:

**Table 1.1 Databases on FLC Mizoram as on 31.03.2019**

FLC Code	District	Location (Metro, Urban, Semi-Urban or Rural)	Sponsor Bank	Whether run by Trust or run directly by sponsor bank
03101	Aizawl	Urban	State Bank of India	Run directly by sponsor bank (SBI)
03101	Champhai	Semi-Urban	State Bank of India	Run directly by sponsor bank (SBI)
03201	Lunglei	Semi-Urban	State Bank of India	Run directly by sponsor bank (SBI)
03301	Mamit	Rural	State Bank of India	Run directly by sponsor bank (SBI)
03401	Siaha	Semi-Urban	State Bank of India	Run directly by sponsor bank (SBI)
89601	Kolasib	Semi-Urban	State Bank of India	Run directly by sponsor bank (SBI)
89701	Serchhip	Urban	State Bank of India	Run directly by sponsor bank (SBI)
89801	Lawngtlai	Semi-Urban	State Bank of India	Run directly by sponsor bank (SBI)

Source: SLBC Mizoram

Financial Literacy Centres are the building blocks or the basic units that initiate the financial literacy activities at the ground level. Hence, banks should provide the minimum basic infrastructure and strengthen the existing FLC Eco-system.<sup>20</sup> Table 1.1 has shown the present statuses of FLCs in Mizoram in which there are 8 FLCs covering all the entire districts, Aizawl FLC has been classified as Urban and Mamit FLC as Rural where the remaining are classified as Semi-Urban. Besides, all FLCs are directly run by State Bank of India under their Lead Bank Office.

### 4. Special Financial Literacy Camps in Mizoram

**Table 1.2 Conduct of Special Camps by FLCs as on March Quarter 2018**

Sl No	District	No. of Camps	Village covered	No. of participants
1	Aizawl	4	4	162
2	Champhai	NA	NA	NA
3	Mamit	NA	NA	NA
4	Serchhip	2	2	159
5	Kolasib	NA	NA	NA
6	Lawngtlai	NA	NA	NA
7	Lunglei	NA	NA	NA
8	Siaha	NA	NA	NA
<b>9</b>	<b>Total</b>	<b>6</b>	<b>6</b>	<b>321</b>

Source: SLBC Mizoram

As shown in Table 1.2, 6 special FLC have been organized by covering 6 villages in which 321 participants were presented in March Quarter 2018.

<sup>20</sup> RBI (2016): "Financial Literacy Centres (FLCs)-Revised Guidelines", Financial Inclusion and Development Department, RBI, Mumbai

**Table 1.3 Quarterly Reports on Conducts of Target Group Specific Camps by FLCs**

Sl No	District	No. of Camps	Villages covered	No. of participants	Target Group
1	Aizawl	NA			
2	Champhai	NA			
3	Mamit	1	1	87	Farmers
4	Serchhip	5	2	374	SME (Weavers)
5	Kolasib	2	2	41	Farmers & Others
6	Lawngtlai	NA	NA	NA	NA
7	Lunglei	NA	NA	NA	NA
8	Siaha	NA	NA	NA	NA
<b>9</b>	<b>Total</b>	<b>8</b>	<b>5</b>	<b>502</b>	<b>SHG, Farmers &amp; Others</b>

Source: SLBC Mizoram

As on March quarter 2019, 8 camps have been organized by 3 FLCs Viz Mamit, Serchhip & Kolasib in which they have covered 5 villages. In these FLC 502 participants were attended the FLC. As per RBI guidelines SHGs, Micro and Small Entrepreneurs, Senior citizens, School children and others (may be identified by the FLCs) are the specific target group to be addressed. Further, as per the SLBC report average participants per FLC in Mizoram are 62.

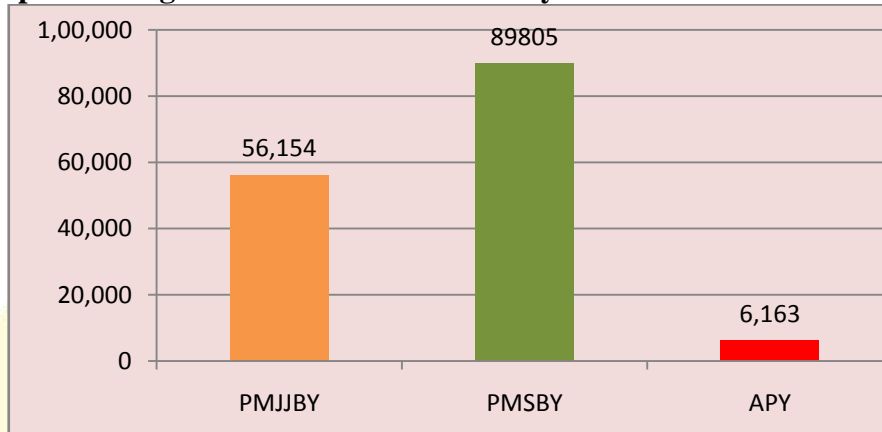
**Table 1.4 Quarterly Reports on Conducts of Camps by Rural Branches of Banks**

Sl No	District	No. of Rural Branches in District	No. of Camps conducted during the quarter	No. of Camps conducted MRB	No. of Camps conducted SBI
1	Aizawl	18	17	16	1
2	Champhai	12	8	8	0
3	Mamit	10	8	5	2
4	Serchhip	9	8	6	1
5	Kolasib	5	7	3	1
6	Lawngtlai	5	4	0	0
7	Lunglei	8	7	8	0
8	Siaha	1	0	5	3
<b>9</b>	<b>Total</b>	<b>68</b>	<b>59</b>	<b>51</b>	<b>8</b>

Source: SLBC Mizoram

Table 1.4 has highlighted Conducts of Camps by Rural Branches of Banks in all districts of the state under which there are 68 rural bank branches and Aizawl district has the highest number of rural branches where Sialha has the least number of rural branches. Regarding Bank Wise Conducts of Camps by Rural Branches of Banks, MRB is the leading banks in rural areas by conducting 51 camps out of 59 camps during March quarter 2019 as shown in table 1.4.

**Graph 1.7 Progresses under Social Security Schemes as on 31.03.2019**



Source: SLBC Mizoram

Social security schemes are providing safety nets for weaker section and vulnerable groups in the society. The progress under three popular schemes have been shown in graph 1.7 where there is an improvement in enrollment as compare with the previous year. But still, there are many people who are devoid of these affordable social security schemes which are yet to be covered.

**Major Findings:**

1. Speed up of financial literacy is highly needed to ensure financial inclusion in the country as India being the lowest financial literate among BRICS countries.
2. Mizoram Rural Bank is the leading banks in rural areas in terms of conducting financial literacy as per SLBC data. Further, the average participants per FLC in Mizoram are 62.
3. Mizoram is at the bottom in terms of financial literacy and financial inclusion in the NE states which seems that there is no positive correlation in the context of Mizoram with regard to literacy rate and financial literacy.
4. Financial literacy is higher in urban areas as compared with rural areas in Mizoram as per NCFE. Besides, male are more financially literate than female in Mizoram.

**Suggestions:**

1. Financial Literacy Centres may be set up at the Block Level and village level in coordination with Block Level Bankers Committee and SHG Federations under National Rural Livelihoods Mission as they are the basic units that initiate the financial literacy activities at the ground level.
2. It is suggested that financial literacy may be introduced at school level at the earliest to promote financial inclusion and social inclusion.
3. Financial Literacy Drive may be organized by Lead Bank Office and bank branches in tie up with social institutions like YMA, MHIP and MUP to speed up the initiative.
4. Common Financial Literacy Material/Guide may be prepared by RBI or NABARD in vernacular which will includes basic information such as savings, insurance,

affordable social security schemes etc in order to intensify the message of financial literacy for all.

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