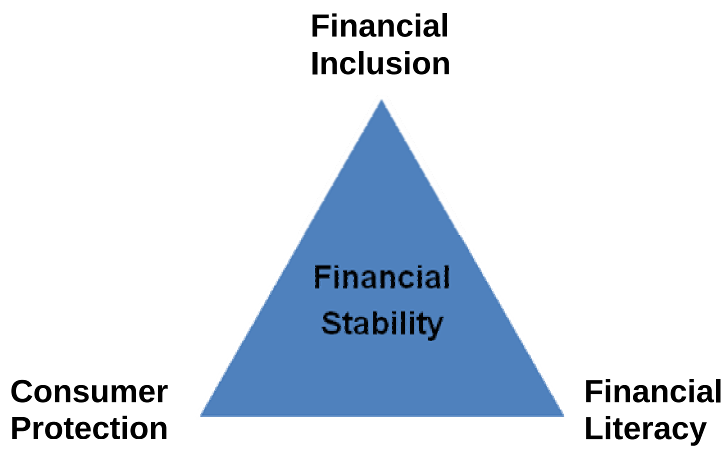
# Financial Literacy and Consumer Protection - Necessary Foundation for Financial Inclusion

**Trinity to make Financial Stability Possible**




- Globally, the triad of Financial Inclusion, Financial Literacy and Consumer Protection has been recognized as intertwining threads in pursuit of Financial Stability. For any kind of stability, whether financial, economic, political or social, inclusive growth is an essential prerequisite. Inclusive growth, in turn, is largely driven by financial inclusion and an inclusive financial system.

**Financial Inclusion and Literacy**

- Financial Inclusion and financial literacy are complementary to each other. For emerging market economies, ensuring adequate access to financial products and services is more important at this stage but financial literacy creates demand for these products/services. In advanced economies, the access is not that important an issue. Thus, it is a global problem with global dimensions.

**India’s strong Financial Inclusion/ Literacy architecture**

- The institutional structure for India’s Financial Inclusion/ Literacy programme is unique as it has an apex body in the Financial Stability and Development Council (FSDC), headed by the Finance Minister of Government of India, mandated, *inter* *alia,* to focus on attaining financial inclusion/ literacy goals. With heads of all financial sector regulatory authorities being part of the FSDC, it seeks to ensure inter-regulatory co-operation for attaining the stated goals.

**Our approach to Financial Inclusion**

**(a) Structured, planned approach**

- We have a structured and planned approach to financial inclusion wherein all banks have prepared Board approved Financial Inclusion Plans (FIPs) with a three year horizon extending up to 2013. The initial goal of providing access to banking services to all villages with population more than 2000 by March 2012 has been successfully met and we are on our way to ensure the same for all villages in a time bound manner. The focus is also on the volume of transactions in new accounts opened as a part of the financial inclusion drive.

**(b) Bank led Model**

- In India, we have adopted a bank- led model for financial inclusion which seeks to leverage on technology. The FI initiatives would have to be ICT based and would ride on new delivery models that would need to be developed by the market participants to best suit their requirements.
- Our experience shows that the goal of financial inclusion is better served through mainstream banking institutions as only they have the ability to offer the suite of products required to bring in effective/meaningful financial inclusion.
- Other players such as mobile companies have been allowed to partner with banks in offering services collaboratively.

**(c) Minimum bouquet of products and services**

- To meet the criterion of availability of banking services, a minimum of four basic products must be offered to customers:
  - a check-in account with emergency credit facility
  - payment services and remittance facility
  - a pure savings product such as a recurring deposit
  - facility of entrepreneurial credit to deserving people

**(d) Technology driven- but technology platform neutral**

- The task of Financial Inclusion is gigantic and cannot be done without actively leveraging technology and without involvement of society as a whole. The Financial Inclusion strategies and delivery models being developed by banks are primarily technology driven. However, we have consciously ensured that the models adopted by banks are technology neutral, which facilitates easy up-scaling and customization, as per individual requirements.

**(e) Combination of Branch and BC Structure to deliver Financial Inclusion**

A combination of Brick and Mortar structure with Click and Mouse technology will be helpful in extending financial inclusion especially in geographically dispersed areas. Banks need to make effective use of technology to provide banking services in remote areas through the Business Correspondent (BC) model. The BC model allows banks to provide doorstep delivery of services, especially cash transactions. To ensure increased banking penetration, and control over operations of BC, more Brick and Mortar branches are needed. In April 2011, banks have been mandated to allocate at least 25 per cent of all new branches to unbanked rural areas. Banks have also been mandated to open intermediary brick and mortar structure between the base branch & customer locations, which will lead to efficiency in cash management, documentation, redressal of customer grievances and close supervision of BC operations.

**Where do non-mainstream institutions fit in?**

- As the penetration of mainstream institutions in limited, other players, which can reach the excluded segments of the society, are needed. These institutions will contribute to financial deepening and furthering the inclusion agenda by acting as a link between the hitherto unbanked population and the mainstream institutional players. They will also help in filling the void till the formal financial sector develops adequate reach and penetration to directly service these segments.

- In sum, two basic issues need to be understood while implementing financial inclusion:
    - Financial Inclusion programmes should be implemented on commercial lines and not on a charity basis. It is important that banking with the poor is perceived and pursued as a sustainable and viable business model.
    - While poor need not be subsidized, it is important to ensure that they are not exploited. The need is to ensure that poor people who deserve credit are provided access to timely and adequate credit in a non-exploitative manner.

**Financial Literacy**

- As a complement to Financial Inclusion, Financial Literacy aims to build peoples capability to use the financial products and services. As the first stage of literacy is to create demand, all institutions involved in delivery of financial products and services are contributing to our financial literacy agenda. This entails devising appropriate products and services, pricing them reasonably, understanding the risk, communicating it to customers and protecting the customers.

**Multi- Agency Central Bank led approach**

- The Central Bank has taken a lead role in spreading financial inclusion and financial literacy. Both in terms of creating an enabling policy environment and providing institutional support, the Reserve Bank of India is actively contributing towards the goal of universal financial inclusion in the country. FSDC has constituted a Sub-Committee to focus solely on Financial Inclusion and Literacy.

  It is well recognized that to be effective financial literacy initiatives should ideally commence at school level although even at a later stage adult education would provide substantial benefits. Realizing this, in India, we have engaged the curriculum setting bodies like National Council of Educational Research and Training (NCERT), Education Boards like Central Board for Secondary Education (CBSE), Central and State Governments, in the FSDC sub-Committee on FI and FL.

- A large number of other players are involved. All other financial sector regulators, banks, insurance companies, pension funds, NABARD, corporates, industry associations, NGOs and other members of the civil society are actively engaged in this process. Thus, our basic approach could be described as a central bank led multi-agency approach.

**National Financial Literacy Strategy**

One of the important tasks that the FSDC Sub-committee is undertaking is to formulate our National Financial Literacy Strategy document. It is being finalized with the following objectives:

- Create awareness and educate consumers on access to financial services, availability of various types of products and their features.
- Change attitudes to translate knowledge into behaviour.
- Make consumers understand their rights and responsibilities as clients of financial services.

**Who should be imparted financial literacy?**

- Contrary to popular perception, financial literacy has to be imparted to everyone in the economy viz. users and providers. In the Indian context, the users are broadly the financially excluded resource-poor, the lower and middle income groups and high net worth individuals. Equally important, banks, financial institutions and other market players too need to be literate about their risks and returns framework. Last, but not the least, policy makers including the financial sector regulators must have financial literacy to comprehend and gauge the requirement of the population and financial institutions to drive the agenda. But, naturally, the message to be conveyed, the method of communication, the language of communication, the complexity of subjects etc. would have to be tailored to suit the target audience. Illustratively, what are the basic/simple messages that we are trying to get across

**What are the basic messages that we are trying to convey?**

- Some of the questions that we seek to address through our FL initiatives are:
  - Why open a bank account?
  - Why should one save?
  - Why save regularly and consistently?
  - What is the difference between money and credit?
  - Why borrow responsibly?
  - Why borrow for income generating purposes?
  - Why repay loans in time? Repayment ethics.
  - Why do you need insurance?
  - What are the benefits of being part of payment and settlement system
  - Why you will need regular stream of income post working life –pension ?
  - Why you should keep money aside regularly and consistently during your earning life for pension in old age
  - What is interest? How moneylenders charge very high interest rates?

*Risk return framework*

- o The basic underlying message that is to be conveyed through financial literacy initiatives is that where returns are more, risk will invariably be higher. One should not take the risk one does not understand.

**Consumer Protection- in whose interest?**

- To protect consumers is in the interest of service providers also. They need to appreciate that for their business to survive, their customers must survive and for that they need to understand the appropriateness of the products themselves. We are encouraging simple plain vanilla products where pricing and other parameters are easy to comprehend and are not too complex. However, as markets mature and more complex products become available, the need for financial literacy would become even more paramount.

**Pricing of Product and Services to protect the Customer**

- The most important area for consumer protection is pricing of products and services. Regulation has to ensure that pricing is transparent, non-discriminatory and non-exploiting. Also, it should be ensured that pricing is affordable too. For the most vulnerable sections of society who do not have much idea about pricing, regulation should ensure formulation of standardized products and services by all market players. For other category of customers, market forces should determine the price.

**Steps taken by RBI in promoting Financial Literacy**

- One of the objectives of the Financial Inclusion/Literacy agenda is to ensure that the sections of the society that are hitherto undeserving of credit facilities are made credit worthy. Initiatives such as setting up Rural Development and Self-

Employment Training Institutes (RUDSETIs) and Financial Literacy and Credit Counselling Centres (FLCCs) by different banks are aimed at ensuring this.

- Some of the other steps taken by RBI to promote financial literacy are as under:
    - ➢ Outreach visits by Top Executives of Reserve Bank of India to remote villages on a continuous basis – to spread the message of financial awareness and literacy.
    - ➢ RBI website - A link on Financial Education in the RBI website for the common man, containing material in 13 Indian languages which includes comic books on money and banking for children, essay competition etc.
    - ➢ Awareness - by distributing pamphlets, comic books, enacting plays and skits, arranging stalls in local fairs, exhibitions, participation in information / literacy programmes organized by Press
    - ➢ Inclusion of Financial Education material in school curriculum by various State Governments
    - ➢ Use of mobile Financial Literacy vans by banks in the North Eastern States
    - ➢ Weekly Radio programmes on FL in some States by banks & similar programmes in Tribal districts by NABARD
    - ➢ Awareness programmes on various Government Sponsored self employment schemes involving bank loans & subsidy by Government agencies like KVIC,DICs, SC/ST corporations
    - ➢ Mass media campaigns tie ups with educational institutes, financial awareness workshops/ help lines, books, pamphlets and publications on FL by NGOs, Financial market players etc.
    - ➢ National & State level rural livelihood missions have large number of field functionaries for proper handholding support to large number of Self Help Groups

- Large number of other websites/portals of banks/ /State Level Bankers Committees disseminating information on banking services
- Conduct of training programmes for farmers club, NGOs & SHG members by NABARD

**Banking Ombudsman- quick and cheap forum of grievance redressal**

- In India, we do have a law for Consumer Protection though not specifically for the financial sector consumers. In regard to bank customers, we have the Banking Codes & Standards Board of India (BCSBI) which is the standards setting body for banking services. The self-regulatory organization of the banking industry viz., Indian Banks Association has evolved a fair practices code to be adopted by its members.
- To ensure that consumers are protected even in case of plain vanilla products, the Reserve Bank of India has instituted the Banking Ombudsman, an alternate dispute resolution mechanism. We are examining the possibility of enacting a comprehensive financial sector consumer protection legislation.

**What has been achieved so far?**

- The progress in some of the key parameters from March 2010 to March 2012 are as follows:
    - Banking connectivity to more than 1, 47,534 villages has been achieved by March 2012 from 54,258 in 2010.
    - All villages with population of more than 2000 persons have been connected with Banks. Total number of such villages given bank connectivity is around 74,000.
    - Number of barefoot bankers increased to nearly 97,000 from 33,000.
    - More than 50 million basic banking accounts have been opened to take the total number of such accounts to more than 100 million.
    - About 7 million people/families have been credit linked.
    - Nearly 22 million families have been given the benefit of electronic benefits transfer.

Though these figures in isolation seem very impressive, yet, if one considers the gargantuan nature of the task ahead to provide access to 1.2 billion people in the country and to reach 600 thousand villages, it’s a long way forward. It requires concerted efforts at all levels involving all stakeholders.

**Gaining from international experiences**

- Financial Inclusion as a concept is still evolving. The delivery models are still being perfected by the market participants. While excellent work is being done in some pockets, in many other areas the progress is not satisfactory and there is a need to broad base the achievements. International conferences such as this help in sharing cross-country experiences and in fine tuning our strategies based on learnings of our peers across jurisdictions and adopting international best practices.

**Conclusion**

The task of achieving universal financial inclusion is a global one and has huge dimensions. The issue of financial stability and that of financial inclusion, literacy and consumer protection are intertwined. While each jurisdiction will perhaps evolve their own different delivery models, we need to learn from each other and implement what is suitable in our context. Some progress has been achieved but a lot needs to be done. I am sure that with the active involvement of all stakeholders we would be able to take financial inclusion from principles to action.

Thank you.