Exploring the challenge of financial education across emerging economies[1]

Mr. James Crabtree, Chief Mumbai Correspondent, Financial Times, Mr. Uttam Nayak, Group Country Manager, South Asia, Visa Inc, Mr. Thomas Davenport, Director, South Asia, IFC, Ms. Nirupama Soundararajan, Additional Director, FICCI, Ms. Jayshree Vyas, Managing Director, SEWA Bank, distinguished guests, members of the press, ladies and gentlemen. It is my pleasure to be present here today to address this august gathering to deliberate on the challenge of financial education across emerging economies. Financial Literacy, together with Financial Inclusion and Consumer Protection form a triad which has a vital bearing on the stability of the financial system. Financial literacy is one of the major challenges facing countries across the globe, irrespective of their level of economic development and has been receiving significant attention from policy makers worldwide. I would, therefore, like to congratulate Financial Times and Visa for taking initiative by organizing this financial literacy forum and bringing together thinkers, policy makers and market practitioners to deliberate on how to enhance the effectiveness of our financial literacy efforts.

2. When we talk about financial literacy, we are usually referring to a set of skills that allow people to manage their money wisely along with some understanding of essential financial concepts, not least an appreciation of the trade-off between risk and return. Financial Literacy is not just about markets and investing, but also savings, budgeting, financial planning, basics of banking and most importantly, about being "Financially Smart". To understand financial planning, a person should be financially literate and be able to understand the importance of preparing household budgets, cash-flow management and asset allocation to meet financial goals. Hence, the foundation of financial literacy needs to be laid by inculcating financial prudence through education at the school level.

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Is financial literacy required only in emerging and developing economies?

3. I would say that financial literacy is essential for both developed nations and emerging economies. However, we need to bear in mind that the focus of financial literacy initiatives would vary depending on the economic profile of the target population. For developed countries, the access to financial products/ services is fairly widespread and hence, consumers/ market participants are required to be educated more about the characteristics of the financial products/services, including their risks and returns. However, for emerging market economies, ensuring adequate access to financial products and services is more important with the financial literacy initiatives focusing on creating demand for these products/services. In India, the access to products itself is lacking. Therefore, ensuring widespread access to financial products/ services and greater knowledge about the basic financial products/ services, including their risk/ return profiles, is essential for expanding the outreach and inclusiveness of the financial system. Thus, our financial literacy efforts are closely interlinked with our financial inclusion strategy.

Why is financial literacy necessary?

4. Financial Literacy is considered an important adjunct for promoting financial inclusion, consumer protection and ultimately, financial stability. Financial Inclusion and Financial Literacy need to go hand in hand to enable the common man to understand the needs and benefits of the products and services offered by the formal financial institutions. We have defined financial inclusion as *ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups, such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner by regulated mainstream institutional players*. So, from the financial inclusion perspective, it essentially involves two elements, one of access and the other of literacy.

Who are the target groups and what messages to deliver?

5. I shall argue here that everyone in the economy needs to be financially literate viz., users and providers of financial products/ services. In the Indian context, the users can be broadly categorized as the financially excluded resource-poor, the lower and middle income groups and high net worth individuals.

6. For the resource-poor population, financial literacy would invariably involve addressing deep entrenched behavioural and psychological factors that are major barriers to participating in the financial system. For the purpose, our financial literacy efforts are primarily directed towards dissemination of simple messages of financial prudence (vernacular language) through large awareness campaigns across the country combined with vigorous roll out of financial inclusion plans by banks, insurance and pension funds, and others. However, it is important to note that being literate is not a necessary prerequisite for attaining financial literacy as the basic financial messages can be conveyed through various alternate means without relying on written inputs. Some of the basic messages we seek to deliver are:

- Why save?
- Why save regularly and consistently?
- Why save with banks?
- Why borrow within limits?
- Why borrow from banks?
- Why borrow for income generating purposes?
- Why repay loans
- Why repay loans in time?
- Why do you need insurance?
- 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?

- What is the difference between money and credit.

7. One of the primary challenges for improving the effectiveness of financial literacy efforts is to ensure the standardization of the basic messages being conveyed to people. This will help in ensuring consistency in the messages reaching the target audience from various sources and making it more focussed and purposeful. I hope that this forum deliberates on this issue and comes up with some useful ideas on the same.

8. For the lower and middle income groups that are participating in financial markets as either savers or borrowers or both, i.e. the financially included, financial literacy is about enhancing their knowledge about the market and about the range of products/ services available for meeting various financial goals. For instance, how many people invest in equities? They lack knowledge about how the equity market functions, which gives relatively high returns over a longer time horizon as compared with other kinds of investments. For high net worth individuals, the education is useful to fetch greater returns from their investments in the market and to avail credit at relatively cheaper rates. But whether saving or investing, the basic lesson that a higher return implies higher risks cannot be lost sight of. People need to be educated to balance their investments in terms of liquidity and risks and that they should not put all eggs in the same basket.

9. While financial literacy for the users of financial services/products is of paramount importance, literacy is also a must for financial service providers. Banks, financial institutions and other market players too need to be literate about their risk and return framework. Every bank, in order to expand its customer base, needs to understand the requirements of its customers, the market, credit and operational risks involved and returns to be achieved. They need to understand that for their business to survive, their customers must survive and for that, they need to understand the appropriateness of the products themselves to be able to explain it to their customers.

10. Besides, the providers of financial services have a vested interest in the spread of financial inclusion and financial literacy, as it will help them in expanding their business

operations to newer segments of the population. Globally, it is observed that commerce for the poor is more viable than commerce for the rich. Financial Inclusion needs to be pursued in a commercially viable manner, which is possible only if the entire suite of products including credit products, remittance services and deposit products are offered to customers. The commercial viability of financial inclusion efforts is essential for ensuring long term sustainability and scaling up of this business. The failure of financial intermediaries to ensure effective implementation of financial inclusion efforts as a viable business model indicates the lack of basic financial literacy on the part of these financial intermediaries.

Institutional framework in India

11. One critical advantage that India has in its Financial Literacy and Financial Inclusion efforts is the strong institutional framework in place for guiding its implementation. We have the Financial Stability & Development Council (FSDC) headed by the Union Finance Minister which, *inter alia,* has been mandated to look after Financial Inclusion and Literacy efforts. 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. FSDC has constituted a Sub-Committee to focus solely on Financial Inclusion and Literacy. In our multi agency approach, Reserve 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.

12. One of the important tasks that the FSDC Sub-committee has taken up is to formulate the National Financial Literacy Strategy document with the following objectives.

(i) Create awareness and educate consumers on access to financial services, availability of various types of products and their features.

(ii) Change attitudes to translate knowledge into behaviour.

(iii) Make consumers understand their rights and responsibilities as clients of financial services.

Financial Literacy – Ideally start early in Schools

13. 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. Financial education at the school level would involve teaching the basics concepts for laying a strong foundation. The groundwork for this sort of conceptual understanding is best laid in a formal educational setting. The reason why it is important to teach financial education in schools is also due to its multiplier effect on the society as they would be in the best position to act as ambassadors for the spread of financial education in their surrounding environment. In India, therefore, we are engaging with 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 to try and embed such concepts in the school curriculum.

Channels of Financial Literacy

14. Taking into consideration different cultures and market development needs, we are adopting a multi-channel approach to cover different financial and education levels in various age groups. We have a link on Financial Education on the RBI website for the common man, containing material in 13 Indian languages, which includes comic books on money and banking for children, puzzles, competitions, etc. Top Executives of Reserve Bank of India undertake outreach visits to remote villages on a continuous basis to spread the message of financial awareness and literacy. A Young Scholars Scheme has been instituted wherein, around 150 graduate students are selected each year from across the country, who are provided summer internship in various offices of the Reserve Bank and are expected to submit small project reports relevant to the Bank's functioning. Moreover, these young scholars are required to visit some schools in their region and explain their project to school students, so as to create greater awareness among the school students regarding the functioning of the Reserve Bank.

Besides, town hall meetings, participation in information / literacy programmes organized by Press, enacting plays and skits, arranging stalls in local fairs/ exhibitions, etc. are some other initiatives towards this objective.

Who all are partnering in this initiative?

15. Everybody has to be involved in the financial literacy efforts. In India, a large number of stakeholders including the central and state governments, financial regulators and players, civil society, educationists and others are involved in spreading financial literacy. As we have adopted a bank led model for financial inclusion, banks are actively contributing to our financial literacy initiatives by setting up Financial Literacy and Credit Counselling Centres with focus on educating people on availability of various deposit, credit and remittance products offered by banks, so as to create demand for the same, with the aim of attaining Financial Inclusion. As on March 31, 2012, there are 429 FLCCs functioning throughout the country. Use of mobile Financial Literacy vans by banks in the North Eastern States, Weekly Radio programmes on financial literacy in some States by banks and similar programmes in Tribal districts by NABARD, awareness programmes on various Government Sponsored self employment schemes involving bank loans and 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 financial literacy by NGOs, financial market players, etc. National and State level rural livelihood missions have large number of field functionaries for proper handholding support to a large number of Self Help Groups. A number of other websites/portals of banks/ /State Level Bankers Committees are disseminating information on banking services. Conduct of Financial Literacy programmes by Rural Self Employment Training Institutes, conduct of training programmes for Farmers Clubs, NGOs & SHG members by NABARD are also useful initiatives in this regard. State Governments and local level administrations have an important role to play in financial literacy campaigns as they are closer to the ground and will be in a position to better implement the initiatives taken.

Consumer protection through Literacy

16. For all users of financial services, an important component of financial literacy is the provision of a grievance redressal mechanism, which they can access in cases of complaints and frauds by/against financial service providers. The availability of an effective grievance redressal mechanism is essential as its absence could lead to loss of confidence in the financial system, prompting people to move away from it. This would be a serious setback to our financial inclusion initiatives. For cost-effective, quick grievance redressal related to banking sector, the Reserve Bank has instituted Banking Ombudsmen in each of our Regional Offices. Other regulators have also setup ombudsman in their areas. However, banks/financial institutions should realize that improved customer awareness/ service and effective grievance redressal at their level alone can substantially reduce the number of complaints going to Ombudsmen.

17. In addition to the obvious benefits of financial literacy at the individual level, it has major macro-economic benefits as well. If we can bring the excluded population into the purview of banking services, we could raise household and overall domestic savings further, and can, thus, fulfill one of the necessary conditions for achieving double-digit growth.

Conclusion

18. While a number of measures have and are being taken, given the enormity of the task of financial literacy, a lot of ground still needs to be covered. Here, I would like to emphasize the need for a partnership of all the stakeholders in a collaborative manner. The preparation of National Strategy on Financial Education is a step in this direction. However, like the proverbial ‘horse and carriage’, efforts to improve financial capacity and to raise financial literacy best go together; it makes for an easier and more successful journey.

I wish the deliberations all success. Thank you.