Keynote Address by the Hon'ble Finance Minister*

Dr. D. Subbarao, Governor, Reserve Bank of India, Ambassador Richard A. Boucher, Deputy Secretary General of the Organization for Economic Co-operation and Development, ladies and gentlemen

2. It gives me great pleasure to be here to inaugurate this Workshop on *Delivering Financial Literacy* being co-hosted by the RBI and the OECD. I must compliment the Reserve Bank of India for thinking of hosting such a learning event as a key component of its ongoing Platinum Jubilee celebrations. After all, financial literacy, and education, plays a crucial role in financial inclusion, inclusive growth and sustainable prosperity as is also being increasingly recognised and acknowledged globally. My compliments to OECD for innovatively leading the effort on financial inclusion in the developing world and for co-hosting this very important workshop.

3. While the financial sector policies in India have long been driven by the objective of increasing financial penetration and outreach, the goal of universal inclusion has eluded us. The network of co-operative banks to provide credit to agriculture and saving facilities to the people living in rural areas, the nationalization of banks in 1969, the creation of an elaborate framework of priority sector lending with mandated targets were elements of a state and central bank-led strategy to meet the savings and credit needs of large sections of the Indian population who had no access to institutional finance.

4. This strategy for expanding the outreach of the financial system had relied primarily on expanding branching, setting up newer institutions like the Regional

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Rural banks and setting targets for credit to broad categories of the financially excluded. Without doubt, it has had a huge impact and altered many a life, especially in the countryside. Given the sheer enormity of the challenge, however, the outcomes of these efforts have so far been mixed.

5. What we need today, therefore, are new approaches to financial inclusion that build on the lessons of the past but also involve, as the sub-theme of this Workshop sugggests, trying out newer approaches and instruments. Importantly, this also requires a change in the mindset on the part of policymakers, practitioners and other stakeholders alike to figure out and put in place effective ways of reaching out to the hitherto un-reached and under-reached segments of our population.

6. Any policy initiative or effort seeking to afford greater access to financial services to a large segment of the population necessarily involves the associated issue of bridging the existing knowledge gap in financial education and literacy. Over the last decade or so, researchers all over the world, especially in the developed countries, have, therefore, started to study and explore whether individuals are well-equipped to make financial decisions. Although the focus of such research undertaken in various countries has varied widely in terms of both the concerns and the context, it may be worthwhile to look back at some of these efforts.

7. Financial literacy has also been linked to saving behaviour and portfolio choice, often connecting financial knowledge to one specific type of transaction. For example, the financially less literate are found to be less likely to plan for retirement, to accumulate wealth, and to make wise investment decisions. In fact, the recent global financial crisis has raised the question whether individuals' lack of financial knowledge led them to take out adjustable rate mortgages (ARMs) or incur credit card debt they could not afford.

8. Research and existing literature in financial literacy have thus typically related individuals' knowledge of economics and finance with their financial decisions related to savings, borrowing decisions, retirement planning, or portfolio choice. It has been said, particularly in the context of the developed economies, that while the young do not save enough and do not fully understand the need for investments for future, many of the elderly tend to feel the pinch of poverty. Today, financial competence has become more essential as financial markets offer more complex choices and, while the policies need to enable access, the responsibility for saving and investing for the future primarily lies with the individuals.

9. Viewed in this background, financial education and literacy assumes urgency in any given scenario. No wonder policymakers all over are increasingly taking note of this and directing their efforts to address it.

10. In this context, I must mention and compliment the OECD for taking a pro-active initiative in generating awareness about financial education. Sometime ago, it had done a major international study on financial education titled 'Improving Financial Literacy' encompassing practical guidelines

on good practices in financial education and awareness. These guidelines promote the role of all the main stakeholders in financial education: governments, financial institutions, employers, trade unions and consumer groups. In addition, they also draw a clear distinction between public information provided by the government and regulatory authorities, on the one hand, and that supplied by the financial analysts, on the other.

11. In a country like India, there is, of course, an obvious case for promoting financial education at the more basic level, especially in the context of the development policies and programmes initiated to reduce vulnerability and expand opportunities for the poor and financially excluded. In our country, financial education and literacy, could ideally supplement our broader initiatives for efficient and inclusive transmission mechanisms and the case for exploring the potential for integrating financial education and literacy into our overall endeavour for financial inclusion cannot be overstated.

12. While India has no nationwide structured financial education programme either at school level or, in general, but institution-specific initiatives by Reserve Bank of India, various Self Regulatory Organizations, Indian Banks Association, commercial banks, Banking Code and Standards Board of India, and more recently, by the Securities & Exchange Board of India, etc. seek to fill the gaps in financial literacy and education.

13. I am extremely happy to learn that the Reserve Bank of India has initiated a "Project Financial Literacy" with the objective of disseminating information regarding the central bank and general banking concepts to various target groups. One important instrument in this is the RBI website which is available in 13 languages. The 'Financial Education' web site link offers basics of banking, finance and central banking for children of all ages. In a series of comic book initiatives, the Reserve Bank has sought to simplify the complexities of banking, finance and central banking, with the goal of making the learning fun and interesting. RBI has also enjoined upon all the banks to set up credible financial literacy and credit counseling function in their frontline branches.

14. Indeed, financial education and literacy can broadly be defined as the capacity to have familiarity with, and understanding of, financial market products, especially rewards and risks in order to make informed choices. Viewed from this standpoint, financial literacy primarily relates to personal financial education to enable individuals to take effective actions to improve overall well-being and avoid distress in matters that are financial. As any attempt at expanding the outreach of financial education needs to start at the grass-roots, the initiative that RBI is launching in collaboration with the State Government here for school children in Karnataka is most welcome and promising indeed.

15. As I had recalled a while ago, pursuant to the process of globalization and initiation of financial sector reforms here in 1991, the economic and financial landscape in India has undergone a significant transformation. In the process, the economy has become more diversified with new drivers and sources of growth. In tandem with these

changes, we have also seen the modernization of the financial sector that has also become increasingly more diversified to meet the new requirements of the economy.

16. The financial sector has also increasingly leveraged on advances in technology which has significantly changed the way financial business is being conducted. As developments in financial markets make possible a much wider range of financial products and services, consumers, on the one hand, face multifaceted choices and options in the management of their personal finances and, on the other, get exposed to a gamut of risks.

17. At the same time, the advances in information technology, especially the phenomenal growth in access to, and use of Internet, have lowered the costs of information acquisition and processing as also of searching for a job. This, in turn, has significantly raised job mobility with attendant implications for family size and expenditure patterns. In this altered social and economic landscape, having financial planning capacity has almost become mandatory as only such knowledge and awareness empowers families to meet their near-term obligations and maximize their longer-term financial well-being.

18. Taking you back to the country context in development strategy that I had referred to earlier, as most of you may be aware India has a divergent, multi-lingual framework. The regional profile in our country is diversified, with most people across different regions being typically conversant in their vernacular languages. Moreover, there exists a wide divergence in literacy levels across various States. Within a State also, there are marked differences between rural and urban areas and there is also a perceptible variation in the penetration of banking across regions.

19. Taken together, these unique circumstances in our country pose a particularly crucial and challenging role for the public policy institutions, including both the Govt. and RBI, to design appropriate delivery mechanisms for financial literacy and education duly nuancing the regional differences.

20. Idioms and metaphors of development economics keep on changing from time to time. Today, new financial sector initiatives in a country like ours - be it in the form of prompt and innovative policy responses from the govt. and the central bank or be it in the form of implementation efficiency and inventiveness from the varied players - need to explicitly prioritize both *financial inclusion* and *financial education and literacy*. I am sure this Workshop will throw up illuminating ideas and fresh insights and provide a platform for sharing replicable cross-country success stories, experiences and strategies in the area of financial literacy and education.

21. With these words, I now have the pleasure of inaugurating this Workshop. My best wishes for the success of this workshop and also for your individual and collective efforts in promoting financial literacy.