*Financial Education Key to Promoting Financial Inclusion and Customer Protection**

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I am happy to be able to address, though not real time, various stakeholders from across the country on this important subject and also congratulate the College of Agricultural Banking (CAB) for focusing on this topical issue. Financial education is a not a new idea for those present here but the enabling environment in terms of policy focus on inclusive growth and availability of technology for cost effective delivery of both banking services and financial education is of recent origin. There is a strong view that the financial crisis occured because many of the NINJA borrowers in the United States were clueless as to the terms of the adjusted rate mortgage contracts they were signing leading to the global economic crisis and this has led to serious concerns on the need for financial education, financial inclusion, consumer empowerment. This was also the backdrop for the passage of the Dodd Frank Act in the United States which is far reaching Wall Street reform in history, Dodd-Frank is expected to prevent the excessive risk-taking that led to the financial crisis. The law also provides common-sense protections for American families, and creates a new consumer watchdog to prevent mortgage companies and pay-day lenders from exploiting consumers. The law focuses on consumer protection. It is designed to make sure that everybody follows the same set of rules, so that firms compete on price and quality. It demands accountability and responsibility from everyone. It provides certainty to everybody, from bankers to farmers to business owners to consumers. If you've ever applied for a credit card, a student loan, or a housing loan you know the feeling of signing your name to pages of barely understandable fine print. What often happens as a result is that many people are caught by hidden fees and penalties, or saddled with loans they can't afford. They are then, hit with a massive rate increase on their credit card balances even though they paid bills on time. Contracts which are simpler – will put an end to many hidden penalties and fees in complex mortgages – so common people are aware of what they're signing. Students who take student loans should have clear and concise information about their obligations. Ordinary investors – like you and me, seniors saving for retirement – should be able to receive and understand information about the costs and risks of mutual funds and other investment products, so that they can make better financial decisions as to what will work for them. Today we have to recognise that the greatest threat arises from the asymmetries of information and power between financial institutions and poor consumers, an imbalance which grows as customers are less experienced and the products they can choose are more sophisticated, an imbalance which holds real potential for negative outcomes due to institutional abuses or ill-informed client decisions. Financial education is an important tool to address this imbalance and help consumers both, accept and use the products to which they increasingly have access. Because it can facilitate effective product use, financial education is critical to financial inclusion. It can help clients to both, develop the skills to compare and select the best products for their needs and empower them to exercise their rights and responsibilities in the consumer protection equation. Financial education spans the informal and formal financial sectors, supporting clients' access to, and more importantly, use of, diverse financial services. When we speak about financial education as a lay person, we are usually referring to a set of skills that allow people to manage their money wisely, some understanding of essential financial concepts and an appreciation of the trade-off between risk and return. But let us ponder a bit deeper

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for a while, is it only this? Let us think from the point of view of a poor person who does not have any regular income, who is not actually literate and who has never accessed any formal source of banking services. Do we mean that such persons, and surely they form a significant part of our population, have no financial literacy. Financial diaries studies, as presented in Portfolios of the Poor (Collins et al. 2009) a book available in the CAB library, I recommend you read or in Cash-In, Cash out: Financial Transactions and Access to Finance in Malawi (Stuart et al. 2011), have demonstrated that most poor people are good financial managers in familiar environments where a majority of financial transactions occur either informally or involve money stored at home. You will all agree, money has its own language and to understand it you need not necessarily be literate. It is almost like any other basic need such as hunger, sleep, *etc.* the understanding of which comes naturally to all. This is possibly the reason that we feel confident to impart financial literacy to all those also who are not formally literate.

More formally, financial education and awareness can take many forms, which include instruction in personal finance concepts, the financial services landscape, the development of the skills, attitudes and behaviours needed to make the right decisions for the individual. Financial education primarily relates to personal finance, which enables individuals to take effective action to improve overall wellbeing and avoid distress in financial matters. It is the ability to know, monitor and effectively use financial resources to enhance the well-being and economic security of oneself, one's family and one's business. Financial education is not about just 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 to understand the importance of preparing household budgets, cash-flow management and asset allocation to meet financial goals.

In India, a large section of population still lack access to basic financial services from the formal financial sector and hence moving towards universal financial inclusion is both a national commitment and a policy priority. 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 need and benefits of the products and services offered by formal financial institutions. We in the RBI have defined financial inclusion as the access to appropriate financial products and services needed by vulnerable groups, such as weaker sections and low income groups, at an affordable cost, in a fair and transparent manner by mainstream institutional players. So, from the financial literacy perspective, it essentially involves two elements, one of access and the other of literacy which enables usage.

The most fundamental reason why people should strive to become financially literate is to help them reach their personal financial goals. Whatever the specific goal, the payoff from financial literacy is an improved standard of living and a sense of confidence about the future. Financially literate individuals are more likely to engage in sound financial planning early in their lives. This enables them to plan for retirement, fund the education of their children, and accumulate more assets. From a national perspective, the payoff is large.

Which is the target group?

Everyone in the system, be it the users or the providers of financial products/services, need to be financially literate. In the Indian context, the users are broadly categorised as the financially excluded resource-poor, the lower and middle income groups and the high net worth individuals.

For the resource-poor largely excluded 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, in vernacular languages, 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 as briefly mentioned earlier, 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 through our financial literacy drives 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?

For the middle and lower-middle income groups that are participating in financial markets as either savers or borrowers or both, *i.e.,* the financially included, financial literacy efforts should aim at enhancing their knowledge about the market and new products/services. For instance, there is a large section of our population that has a bank account but refrains from participating in the capital market on account of lack of knowledge. Financial literacy, in such cases, would focus on creating awareness about the way the capital market functions and also about the fact that the equity market may at times provide relatively higher returns coupled with higher risks as compared to other investments.

For the high net worth individuals, better knowledge of the financial markets, new and innovative products and instruments is important as it helps them in making better use of the available avenues in the financial markets. This knowledge is also useful for taking more informed decision in their quest for greater returns from their investments in the market and to avail credit at relatively cheaper rates. Whether saving or investing, the basic lesson that "higher return implies higher risks" should not be lost sight of. Sometimes we have a tendency to feel that high net worth individuals or resource rich corporate or bankers do not need financial education. Nothing could be farther from truth. To quote an example, many corporates have incurred losses because they had not hedged their foreign currency exposures.

Similarly, in these times of financial uncertainty and risk, the importance of educating our people about the advantages of Life and Non-life insurance products cannot be underestimated. In our country even so called financially educated people, including many of us, still look at insurance, at least partly, as an investment avenue. It is difficult to convince a large number of us that insurance is risk coverage for our life and we should not expect any returns after the insurance policy has expired. Our insurance penetration is far lower than expected. For a poor person not just life, health but livestock insurance are equally important but insurance penetration continues to be poor.

While financial literacy for the users of financial services/products is of paramount importance, financial education 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 and the market, credit and operational risks involved in its operations. 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. Very often the frontline counter staffs of banks do not know all the features of the products being offered to the bank customers.

Institutional framework in India

Now coming to the institutional framework created in India for the spread of financial literacy, I would like to mention that we are among the very few countries where an apex body namely the Financial Stability & Development Council (FSDC)chaired by the Union Finance Minister with heads of all financial sector regulators as members has been mandated, *inter alia* to focus on spread of financial inclusion and financial literacy. Under the aegis of the FSDC, the National Strategy for financial education (NSFE) for India has been prepared. The Strategy envisages ways of creating awareness and educating consumers on access to financial services; availability of various types of products and their features; changing attitudes to translate knowledge into responsible financial behaviour; and making consumers of financial services understand their rights and obligations. The strategy calls for active involvement of individuals, financial sector regulators, educational institutions, NGOs, financial sector entities, multilateral international players and the Government at both Centre and State.

Our national strategy envisages a time frame of five years for its massive financial education campaign and aims at establishing initial contact with 500 million adults, educating them on key saving, protection and investment related products so that they are empowered to take prudent financial decisions. It also seeks to create awareness about the consumer protection and grievances redress machinery available in the country. Basic financial education is aimed to be included in school curricula up to senior secondary level. This is based upon the premise that the most effective way is to weave financial education into the normal content of school curricula. Accordingly, we are engaging with the curriculum setting bodies like the National Council of Educational Research and Training (NCERT), Education Boards like the Central Board for Secondary Education (CBSE), Central and State Governments to try and embed such concepts in the school curriculum.

One of the objectives of the NSFE is to standardise the messages that various stakeholders seek to disseminate through their financial education initiatives. The NSFE document identifies certain simple messages let me reiterate such as why save; why invest; why insure; why save with banks; why borrow within limits; why repay loans in time; why borrow for income generating purposes, what is interest and how moneylenders charge very high interest rates, *etc.* It is a well recognised fact that the standardisation will help in ensuring consistency in the messages reaching the target audience from various sources and making them more focused and powerful.

We have already done some work in this direction. In order to ensure consistency in the messages reaching the target audience of financially excluded people during the financial literacy camps, we have issued comprehensive financial literacy material containing Guidance Note for Trainers, Operational Guidelines for conduct of Financial Literacy Camps, Financial literacy Guide, Financial Diary and a set of 16 posters. Banks have been advised to use it as a standard curriculum to impart basic conceptual understanding of financial products and services.

Role of Banks in spreading financial literacy

The RBI has adopted a planned, structured and integrated approach of achieving financial inclusion through financial literacy by advising banks to setup financial literacy centres (FLCs) with a view to scale up the financial literacy efforts throughout the country.

Banks have been advised to setup FLCs in the 630 plus offices of the lead district managers (LDMs). These offer face to face money advice. Further we have mandated the 35,000 plus rural branches of SCBs including RRBs to undertake outdoor financial literacy activities at least once a month with focus on financially excluded population. In order to link the financially excluded segment with the banking system, the RBI has devised model architecture to conduct the financial literacy camps in three stages starting with awareness in first stage, account opening in second stage and monitoring the usage of accounts in the third stage.

As at the end of June 2013, 750 FLCs have been set up by banks and a total of 2.8 million people have been educated through indoor education in FLCs and by organising outdoor activities like awareness camps/ choupals, goshtis baithaks, seminars, lectures *etc.*

In conclusion we have discussed that financial education is the key to promoting financial inclusion and customer protection.

In the paradigm of the post crisis world at the current global economic conjuncture the synapses between financial education, financial inclusion and customer protection assume great salience. The G20 discourse is increasingly focused on financial inclusion and consumer protection as integral to achieving financial stability and integrity. This forms part of the global economy concerns and the G20 Framework for strong, sustainable and balanced growth. The World Savings Bank Institute, 2010 has recognised financial access as a 'key accelerator' to meet the Millennium Development Goals. We have discussed that Financial education is the process of building knowledge, skills and attitudes leading to become financially literate. Financial education introduces people to good money management practices with respect to earning, spending, saving, borrowing, and investing. The role of financial education is to enable people to determine their financial goals and shift from reactive to proactive decision-making and work towards fulfilling these goals. By broadening an understanding of financial products, options and principles, financial education builds skills to use financial products and services, and promotes attitudes and behaviours that support more effective deployment/use of scarce financial resources. When linked to the financial inclusion agenda the implicit argument is that financial education will motivate the learner to understand the advantages of transactions with mainstream financial institutions and adopt available formal financial services. Financial inclusion is thus the process of bringing people from the margin to the mainstream, linking them to mainstream financial institutions so that they become customers of banks and are able to access the full range of services – Savings, Deposits and Loans which the Banks offer. Financial education is key to promoting financial inclusion which is a step towards customer protection as it ensures linkage with mainstream financial institutions so that the hapless borrower is not at the mercy of the informal service providers who charge notoriously high rates of interest. Building financial capability is a very great challenge – the combination of knowledge, skills and attitudes with the opportunities to apply them – requires input from multiple sources including those that educate the consumer and those that sell the products. As a result, the responsibility for wise decisions regarding financial strategies and tools does not lie solely with the individual client. Building financial capabilities is not a unidirectional process while customers have a responsibility to be informed about the products they are 'purchasing', financial service providers have a responsibility to understand their market, and respond with a range of appropriate and affordable services, including savings and credit accounts, payment services, insurance products and the ability to send and receive remittance payments cheaply. In sum, the Banks need to address the needs of the customer and tailor products and services customised to their requirement without adopting a one size fits all approach. They need to apply principles of transparency in a way that facilitates clients' decision-making, and verify assumptions about what clients understand and don't understand about their products and the fine print in the contracts they sign. We at the RBI have embraced financial education to protect consumers from fraud and abuse. The RBI has a Banking Ombudsman scheme which enables grievance redress in an expeditious and inexpensive manner and there is a proviso of appeal against the decisions of the Banking Ombudsman. The power of appeal vests with the Deputy Governor in charge of the department.

Thus, financial education and the financial literacy it builds leading to wider financial inclusion and greater customer empowerment comprise a win-win proposition at multiple levels, for several stakeholders. At the micro level, financial literacy helps poorer households to use scarce resources more effectively, choose the financial products that best meet their needs and become pro-active decision makers. At the macro level, the institutional level, informed customers definitely make for better clients; they help lower institutional risk and contribute to a stronger bottom line. At the market level, financially literate consumers are a key element in effective consumer protection; placing pressure on financial institutions for services that are both appropriately priced and transparent. Public agencies such as central banks must ensure the consumer voice is heard thus aligning financial inclusion, financial stability integrity and consumer protection policies. Inclusion, stability, integrity and protection ISIP are core objectives. Financial education, financial inclusion and financial stability are a continuum. I wish the conference great success and hope that you have extremely enriching deliberations over the course of the conference. Thank you for patient listening.