

Financial Literacy and Inclusive Growth: Issues and Challenges

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ABSTRACT

Till a few decades back, finance was not given much importance and it was assumed as theories relating to asset pricing of traded stocks only. But now finance plays a prominent role in every sphere of country's socio-economic growth. Due to changes through globalisation and liberalisation policies, banking and financial services have also been changed in terms of functioning, scope and importance towards growth. It has also been observed that broad and easy access to formal financial services is a precondition of growth in GDP and economic development of any country. Financial education is relevant and essential for both developed as well as the developing countries. In developing countries, the growing number of consumers in newly developing financial markets necessitates financial education while, in the developed countries, its relevance arises due to complex financial products and technological advancements. Financial education can make a difference not only in the quality of life that individuals can afford, but also the integrity and quality of markets. It can equip individuals with basic tools for budgeting and help them in acquiring the knowledge to save. Financial education thus goes beyond the provision of financial information and advice. The aim of this paper is to study for existing scenario of financial education in India with initiatives taken for promoting financial literacy. This paper is an attempt to establish relationship among financial education, financial inclusion and inclusive growth in India.

Key Words: financial education, financial literacy/education, inclusive growth, financial inclusion.

JEL code: G20, I20.

Introduction

In India, finance happened to be an important subject but most part remained in the informal sector of the economy. Few decades ago, it has been realised that the finance seekers as well as depositors were in the dismal position. In the recent years, it is being understood gradually that finance must constitute an integral part of the economy by bringing this sector from being vulnerable to the most promising sector of the economy. Due to changes through globalisation and liberalisation policies, banking and financial services have also been changed in terms of functioning, scope and importance towards growth. It has also been observed that broad and easy access to formal financial services is a precondition of growth in GDP and economic development of any country. On the other hand, financially inclusive growth straddles a lot of issues, in which one of the

important issues is the challenge of financial education.

Financial education can lead to multiplier effects in the economy. A well educated household would resort to regular savings, which in turn would lead to investment in right channels and income generation. The financial well being of individuals will in turn increase the welfare of the society. Financial education is relevant and essential for both developed as well as the developing countries. In developing countries, the growing number of consumers in newly developing financial markets necessitates financial education while, in the developed countries, its relevance arises from the increasing number of complex financial products and technological advancements.

Several Countries such as Australia, New Zealand, France and the USA have conducted detailed survey

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on the state of financial literacy in their countries. These surveys mainly concern topics related to money management, financial planning, choosing and buying products. The results of the survey serve various purposes like Identifying the needs and gaps, establishing the direction of the effort, Identifying special groups such as women and illiterates that need attention and Serving as an evaluation and benchmarking standard as the result of future. The objective of financial education is also customer protection. It helps customers to better understand and manage financial risk, deal with complexities of the market place and take advantage of increased competition in the financial sector.

Though the term 'financial education' has come to be associated with individual/personal finance, a very important segment that must be brought under the ambit of such initiatives relates to small entrepreneurs and small businesses. Particularly when the effort is towards 'inclusive growth', these segments really showcase the benefits of economic growth. The focus on these cases would obviously be different, with greater stress on awareness and timeliness of financial advice, instead of just education. Where lack of awareness is a major factor that contributes to financial exclusion in India, financial education is, therefore, a necessary condition for attainment of inclusive growth through financial inclusion. Financial education is helpful in combating financial exclusion.

Financial Education: Conceptual Framework

Financial education can be defined as "the process by which financial consumers/investors improve their understanding of financial products, concepts and risks 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 well-being".¹

Financial education can make a difference not only in the quality of life that individuals can afford, but also the integrity and quality of markets. It can equip individuals with basic tools for budgeting and help them in acquiring the knowledge to save. Financial education thus goes beyond the provision of financial information and advice. Financial education has a role in "building the capacity of the poor to gain control, become proactive, use information and resources to enhance their economic

security and more effectively use financial services". When better-informed clients become better consumers of financial services, financial institutions benefit. As per an OECD study², the key components of financial education efforts could be

1. Understanding the key financial products one may need throughout one's life including bank accounts, insurance, retirement savings plans and securities market investments like stocks, bonds and mutual funds.
2. Understanding basic financial concepts like compound interest, present and future value of money, annuity, investment return, risk, protection and diversification and so on.
3. Developing skills and confidence to be aware of financial risk and opportunities and to benefit from them.
4. Making good financial choices throughout one's life about saving, spending, insurance, investing and managing debt, when getting an education, starting a job, buying a house, starting a family, getting ready to retire and living out the senior years.

Another study conducted by Microfinance Opportunities³ (a microenterprise resource centre) under the project "Financial Education for the Poor" a consistent demand was found for the following broad themes of financial education:

1. Money Management: How to proactively manage money
2. Debt Management: How to control debt and avoid over-indebtedness
3. Managing Savings: How to save regularly and in a safe location
4. Financial Negotiations: How to strengthen clients' bargaining position vis-à-vis input suppliers, other household members, and financial institutions
5. Use of Bank Services: How banks work and impose charges; How clients can maximize bank services, interact with banks, and effectively use ATMs

The objective of financial education is also customer protection. It helps customers to better understand and manage financial risk and deal with complexities of the market place and take advantage of increased competition and choice in the financial sector.

Financial Education and Financial Inclusion

In the context of 'financial inclusion', the scope of financial education is relatively broader and it acquires greater significance since it could be an important factor in access of excluded groups to finance. Financial inclusion is one of the top most policy priorities of the Government of India. One of the most visible aspects of the governance has been agenda of social inclusion of which financial inclusion is an integral part. *'Financial literacy, and education, plays a crucial role in financial inclusion, inclusive growth and sustainable prosperity'*⁴. In India, financial education is particularly relevant for people who are poor and who operate at the margin and are vulnerable to persistent downward financial pressures. With no established banking relationship, the un-banked poor are pushed towards expensive alternatives. Financial education can help them prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.

The complementary relationship between microfinance and financial education is obvious and financial literacy can increase the decision making power and prepare them to cope with the financial demands of daily life. A study⁵ regarding Mexican experience has highlighted that the social and cultural factors embedded in the financial landscape greatly influence the ability of individuals to use financial services effectively. The transformation of financial information, knowledge, experience, attitudes and social relationships into financial education constituted a cognitive resource to reducing vulnerability.

One of the major hindrances in the way of delivery of financial services is the lack of basic knowledge and lack of awareness of the products and services available from the banks.

People need information and advice when they either save their money or get into debt. Such information and guidance can best be delivered by appropriate mechanisms and if such effective mechanisms are put in place through the banks, they in turn would reinforce the demand for financial services.

Scope and Need for Financial Education

There is a need to explore the potential for integrating financial literacy into various types of development programs: microfinance, vocational education, skills training, business development,

health, nutrition, agriculture, and food security programs.

In India, improved technology will enable Governments to make all payments, including under various schemes electronically. Electronic government payments have made having a bank account essential in order to receive payments and benefits. This has made it more important for unbanked consumers to access information on basic bank accounts savings accounts and other financial services.

While talking about financial education, it is important that the focus also extends to the urban common people, including the literate masses, which may not be *'financially literate'*. It is not that the urban masses are well versed in the Internet Banking and other newer methods of banking; there continues to remain a segment, which either avoids using the services due to lack of confidence or remains unaware of the options available. Financial education to such target group would be mutually beneficial.

There is also need for greater awareness of various products and services offered by banks. It has been reported that some banks, while lending for housing, are not fully transparent in indicating the factors governing the benchmark in respect of floating rates as well as in regard to reset clauses. As part of consumer awareness, many initiatives have been taken to increase the disclosure levels on part of lenders, but effectiveness of all this would be predicated on the financial understanding of the person taking the loan.

Initiative Taken on Financial Education

*RBI's initiatives on Financial Education*⁶

Reserve Bank of India has undertaken a project titled "Project Financial Literacy". The objective of this project is to disseminate information regarding the central bank and general banking concepts to various target groups, including school and college students, women, rural and urban poor, defence personnel and senior citizens. The project has been designed to be implemented in two modules, one module focusing on the economy, RBI and its activities, and the other module on general banking.

It is disseminated to the target audience with the help of banks, local government machinery, schools and colleges through presentations, pamphlets, brochures, films and also through RBI's website. The RBI, on its part, currently, a process of credit

counselling is being encouraged to help all borrowers, particularly those in distress, to overcome current financial problems and gain access to the structured financial system.

The Reserve Bank already has an informative website, which carries information about the Reserve Bank and its various activities. The most recent link that has been added is on Financial Education. With a view to making the website understandable by the common person across the country, it has been created a multi-lingual site in 11 regional languages and Hindi and English.

The site explains the role and functions of the Reserve Bank of India, how to use the Right to Information Act for getting information from the Reserve Bank, frequently asked questions on various aspects of banking, the Reserve Bank of India's instructions to banks on customer service and how to resolve customer complaints.

SEBI's Initiatives on Financial Education

Securities Exchange Board of India has embarked financial education on a nationwide campaign. To undertake financial education to various target segments viz. school students, college students, working executives, middle income group, home makers, retired personnel, self help groups etc., SEBI has empanelled Resource Persons throughout India, who are provided training on various aspects of finance and equipped with the knowledge about the financial markets. They organise workshops on various aspects viz. savings, investment, financial planning, banking, insurance, retirement planning etc. More than 3500 workshops have been already conducted in various states covering around two lakh and sixty thousand participants.

Regional seminars are also conducted by SEBI through various stakeholders viz. Stock Exchanges, Depositories, Mutual Funds Association, and Association of Merchant Bankers etc. SEBI has a dedicated website for investor education wherein study materials are available for dissemination. SEBI also publishes study materials in English and vernacular languages. SEBI has recently set up SEBI Helpline in 14 languages wherein through a toll free number, investors across the country can access and seek information for redressal of their grievances and guidance on various issues⁷

IRDA'S Initiatives on Financial Education

Insurance Regulatory and Development Authority

has taken various initiatives in the area of financial literacy. Awareness programmes have been conducted on television and radio and simple messages about the rights and duties of policyholders, channels available for dispute redressal etc have been disseminated through television and radio as well as the print media through sustained campaigns in English, Hindi and 11 other Indian languages. IRDA has also brought out publications of 'Policyholder Handbooks' as well as a comic book series on insurance. IRDA's Integrated Grievance Management System (IGMS) creates a central repository of grievances across the country and provides for various analyses of data indicative of areas of concern to the insurance policyholder.

PFRDA Initiatives on Financial Education

The Pension Fund Regulatory and Development Authority, India's youngest regulator has been engaged in spreading social security messages to the public. PFRDA has developed FAQ on pension related topics on its web, and has been associated with various non government organizations in India in taking the pension services to the disadvantaged community. PFRDA has issued advertisements in print media and electronic media through radio and television. PFRDA appointed intermediaries are called Aggregators who are directly responsible for pension awareness mostly in vernacular languages and in line with socio-economic sensibilities.⁸

Market players Initiatives on Financial Education

Commercial banks are increasingly realizing that they are missing out on large segment of financially illiterate and excluded segment of prospective customers. Top management of commercial banks is undertaking Outreach visits to villages with a view to spread financial literacy. The use of information technology offers a lot of promise in providing financial literacy and education and experience in several parts of the country through the use of rural information kiosks, mobile vans, etc. which have shown to what extent IT can be leveraged to provide information on various products and services. Information kiosks can be run by the Business Correspondents or installed in PCOs, etc. to disseminate information about not only banking products, but also other useful information like input/output prices, insurance products, health services, weather information, etc. Such variety of knowledge would help in better

risk mitigation, lesser documentation hassles while sanctioning loans, etc.

Many Stock Exchanges, Broking Houses and Mutual Funds have initiatives in the field of financial education that spawns conducting of seminars, issuance of do's and don'ts, and newspaper campaigns. Insurance companies too, carry out campaigns and other educational activities for generic education in insurance.

India Infoline (IIFL) also started financial literacy campaign dubbed as Financial Literacy Agenda for Mass Empowerment (FLAME). The programme which targets various sections of the Indian society, lays a special importance on financial literacy amongst students.

The current academic syllabus is very scholastic with little focus on real-world money management. They launched a certificate course called Financial Literacy for Students (FIN-LITES) for the children of class VIII, IX and X across the country. This course, in collaboration with over 30 schools, including Kendriya Vidyalaya Sangathan, is designed to impart basic financial training and know-how to its students. This course has come as a highly beneficial addition to our curriculum.¹⁰

Some non-banking initiatives are also being experimented in various parts of the country. In this context, SEWA started a project on financial counselling service for poor self-employed women in India, called 'Project Tomorrow'. It was started in 2001 with a purpose to develop and test a financial counselling curriculum to help participants manage money productively, plan ways to increase assets, address life cycle events, manage risks. Through this project, a training unit and training delivery system have been established. The initial experience suggests that participants grasp the concepts presented and welcome new perspectives stemming from such training.

Conclusion

There is a need for banks and other agencies striving to extend financial education to the masses to appreciate that financial inclusion is a continuous process. A common effort of the educational programmes focuses on the 'supply' side that stresses on attracting customers in the financial fold. However, it is a need that the prospective customer is empowered to make demand the desired services. This could create a qualitative 'demand' situation of the financial services. Financial education does

not necessarily motivate individuals; motivation brings individuals to financial education. Here the role of banks assumes importance as financial counselors of the clients. While the Groups in India may be different in view of large scale financial exclusion, it is necessary that as a very first step towards financial literacy.

FOOTNOTES

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