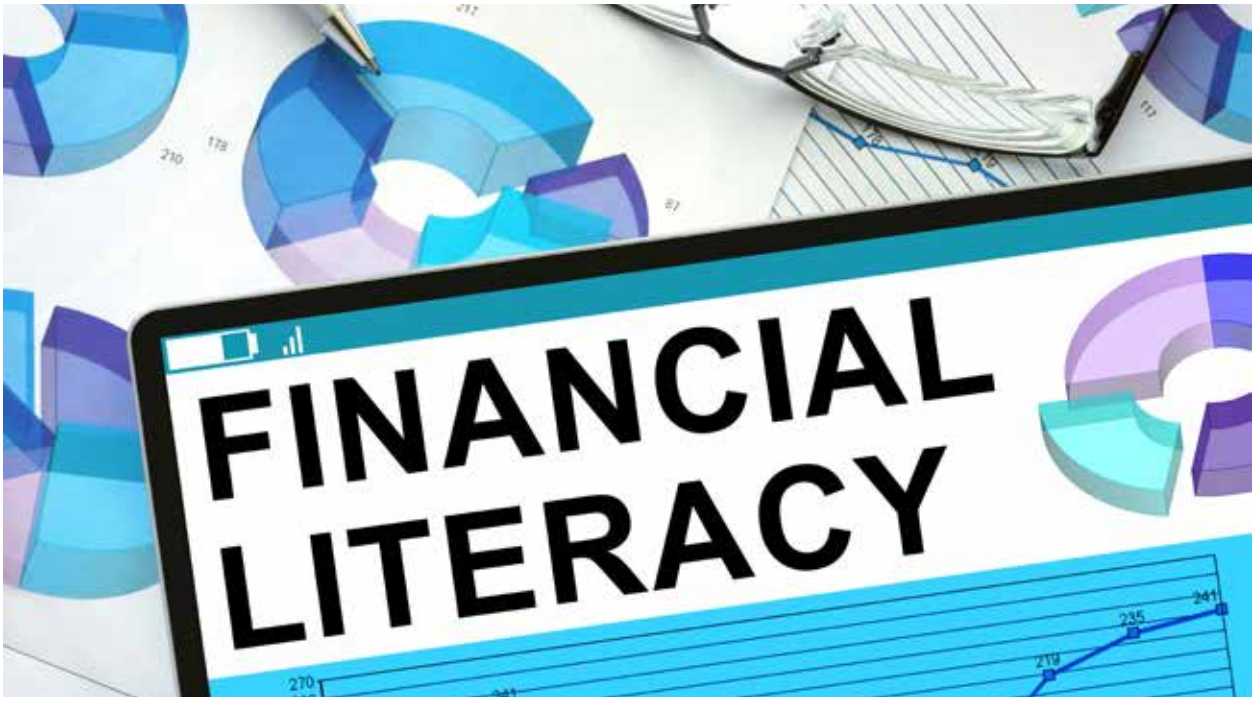
Financial Literacy: An Overview of National and International Scenario



Financial literacy that is an ability to understand money matters, basically empowers us to manage the processes of earning, earning itself, investments and their growth, and donations as helping measures. Eventually, this literacy empowers us through a set of skills and knowledge in making informed and effective decisions in the financial matters. In 2003, OECD (Organization for Economic Co-operation and Development) had initiated an inter-governmental project to improve the condition of financial education and literacy standards by developing common financial literacy principles. The author through his article attempts to explain the concepts of financial education, including financial inclusion and exclusion, and merits and demerits and financial literacy. Being an insider, i.e. a member of the Central Council of the Institute, the author finally evaluates the endeavours of ICAI in improving the condition of financial literacy. Read on...

Introduction

Financial education as per OECD (Organization for Economic Co-operation and Development) council is *"the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and through information, instruction 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"*. It helps in disseminating the financial information for protection of financial consumers in contractual relationships.

CA. Vijay Garg

(The author is a Central Council member of the Institute who may be contacted at vijaymgarg@gmail.com.)

In the recent years, financial literacy has assumed greater relevance due to increasing complexity of financial markets and also due to asymmetry in information which makes it difficult to make informed choices by a common man. The Reserve Bank of India (RBI) has further simplified the definition of financial education as *"providing familiarity with*

and understanding of financial products, rewards & risks associated with them in order to make informed choices".

"Financially Educated" Person

Financial education is important, not only for investors but for daily households too who are trying to balance their budget and make effective decisions to manage their financial resources. Personal financial education is about understanding of how household decisions are affected by economic conditions and circumstances in an economy as a whole. It lays stress on basic management of money, i.e. budgeting, spending, saving, investing and insuring.

"Personal Financial Education"

Personal financial education is the ability to:

- Manage cash flow and budget personal finances
- Make informed and effective decisions in managing personal finances.
- Understand long term benefits of savings and implement a suitable investment approach to meet personal goals.
- Plan for the future and be foresighted
- Use proper and cost-effective risk management strategies.
- To maintain one's credit worthiness.

Financial Inclusion

As financial inclusion is an enabler of inclusive growth, it is a national priority of the Government. Financial inclusion is important as it provides openings to the poor in bringing their funds into the proper financial system and enables all households, both urban and rural, to have easy and worldwide access to financial services. By providing access to financial services to all, including the poor, it will take them out of the evil claws of money lenders lending at exorbitant rates and will provide them an opportunity to send money to their families in villages. Efforts are being taken by the Government to cover the financially excluded segments of the nation and in the year 2011, a campaign was launched by the Government of India, wherein as per 2001 census about 74,000 villages with population more than 2,000 were covered with banking facilities.

Financial inclusion aims to:

- Outreach to the underserved and unserved populations in terms of financial initiatives by the government.
- Progressive access of financial services and products to these populations at a reasonable cost.

Formal institutions like banks seek to boost financial inclusion by:

- Educating people about available services/ products.
- Reaching clients.
- Being customer friendly
- Making access to 'no-frill accounts' /'zero balance savings accounts' easy.

Financial Exclusion

- Lack of banking facilities to people with low or non-income.
- Lack of belief of the value of banking facilities.
- Lack of awareness on banking services/products.
- Inability to decide between alternative banking services/products.

Need/Importance for Financial Literacy in India

The growth and development of a nation depends mainly on financial system placed in the country. The development of financial market economies has widened the opportunities for all the stakeholders including consumers, firms, policy makers, investors and economy of a country.

It is necessary for an individual to be financially literate due to the following reasons:

- Increase in the life longevity
- Variations in pension laws
- Transfer of risk
- Enhanced individual's responsibility
- Financial Product and Services Innovation
- Competition of financial firms in the financial services industry
- Multifaceted features of financial products
- Technological changes and market innovations.

The dissemination of financial literacy among the people has been universally recognised during the first decade of twenty-first century. The perception of cultivating financial literacy is gradually gaining importance as a nationwide project.

Efforts are being taken by the Government to cover the financially excluded segments of the nation and in the year 2011, a campaign was launched by the Government of India, wherein as per 2001 census about 74,000 villages with population more than 2,000 were covered with banking facilities.

For financial education, a unified and coordinated national strategy has been implemented by most of the countries. India being a progressive economy with large population and countrywide attention on financial inclusive growth, the need to develop a pulsating and steady financial system in the country becomes more urgent. Further, in order to have a broad national strategy to ensure spreading financial literacy involvement of large number of stakeholders including the central and state governments, financial institutions, financial regulators, civil society, educationists and others is a prerequisite.

Benefits of National Strategy for Financial Education

The benefits of formulation and implementation of *National Strategy for Financial Education* in the country:

- It will help in bringing Financial Literacy, Financial Inclusion & Inclusive Growth.
- Knowledge and skill to enable the individuals to take informed decisions to manage one's finances.
- Freedom from exploitation by protecting society from exploitative financial schemes and moneylenders charging exorbitant interest rates.
- Avoidance of over indebtedness by enabling individuals to make wise financial decisions.

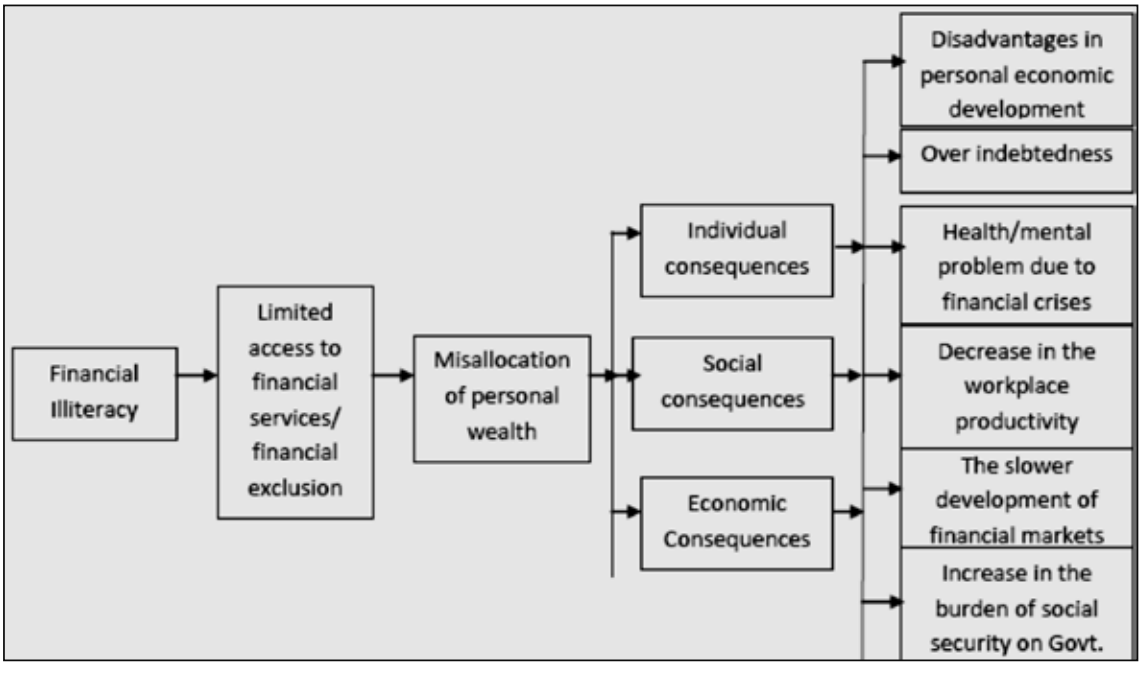
India being a progressive economy with large population and country-wide attention on financial inclusive growth, the need to develop a pulsating and steady financial system in the country becomes more urgent.

- Promoting entrepreneurship by providing awareness of new financial products, market mechanism and thus improving business dealings.
- Positive effects as educated households would go for steady savings, which in turn would lead to investments in proper funds & income generation. This will increase the welfare of the society.
- Pension Responsibility from State/Corporations shall be moved to Individuals by helping the individuals to assess their own requirements and making savings in appropriate schemes.
- Behavioural Change by emerging skill sets & confidence to make conscious of financial risks and prospects.

Consequences of Financial Illiteracy

Without financial knowledge and skills, individuals, society and economy will be at following risks as shown in the Fig.1 below:

Fig. 1



Measures to Increase Financial Literacy

Following steps have been initiated in India to increase financial literacy:

- ***Steps by RBI:*** Project titled *'Project Financial Literacy'* has been undertaken by Reserve Bank of India (RBI) for providing information and awareness about RBI and general banking concept to common people such as rural population, senior citizens, women, youth of schools & colleges, defence people, *etc.*
- ***Steps by SEBI for Empowering Investors:*** SEBI is very dynamic in terms of financial literacy. A campaign called *Securities Market Awareness Campaign* (SMAC) under motto *"an educated investor is a protected investor"* is being run by SEBI. Under this campaign SEBI conducts various workshops across the country. A website has also been created by SEBI for investor education, wherein study material in English and vernacular language are available.
- ***Steps by IRDA on Financial Literacy:*** Various initiatives have also been undertaken by Insurance Regulatory and Development Authority (IRDA) in the area of financial literacy. IRDA has conducted awareness programmes for disseminating modest messages about the rights and duties of policyholders, channels available for dispute redressal, *etc.*, through both electronic and print media in the form of television, newspaper and radio commercials in vernacular languages. Annual Seminars are also being conducted by IRDA on protection and welfare of policy holders and consumer bodies. Besides this, IRDA has also come out with publications of 'Policyholder Handbooks' as well as a book series on Insurance.
- ***Steps by PFRDA on Financial Education:*** The Pension Fund Regulatory and Development Authority, has been engaged in spreading social security messages to the society. FAQ's have been developed by PFRDA on pension related topics which are available on its website. Further, it has also joined hands with various non-government organisations in India for taking the pension services to the underprivileged community.
- ***Steps by Ministry of Corporate Affairs:*** Financial literacy is being spread through various measures across the ministry. The government's Investor Education and Protection Fund (IEPF) too has taken initiatives in this regard. In collaboration with professional bodies, such as the Institute of Chartered Accountants of India, MCA have published investor handbooks and guidelines in almost 15 regional languages in order to educate and reach out to retail investors, especially in tier two and three cities.
- ***Steps by Commercial Banks on Financial Education:*** Through Financial Literacy and Counselling Centers and Rural Self Employment Training Institutes, Commercial banks have started various measures for creating awareness in view of the national emphasis on electronic benefit transfer. The mission of these centres is to advise people :
  - **(a)** on financial system including banks,
  - **(b)** creating awareness about financial management,
  - **(c)** counselling people for meeting their repayment obligations
  - **(d)** resolving their problems of indebtedness,
  - **(e)** rehabilitating borrowers in distress etc.
- ***New Step by Central Government:*** *Pradhan Mantri Jan-Dhan Yojana (PMJDY):* On 15th August, 2014, Hon'ble Prime Minister in his Independence Day address announced *'Pradhan Mantri Jan-Dhan Yojana'*. This is a National Mission on Financial Inclusion to bring about extensive financial inclusion of all the households in the nation. This plan visualises access to banking facilities with one basic banking account for each household for financial literacy, loan facility, pension and insurance to the under-privileged sections i.e. weaker sections & low income groups. In addition to this, the beneficiaries would also get RuPay Debit card having inbuilt accident insurance cover of ₹1 lakh. The plan also envisages the Direct Benefits Transfer (DBT) scheme of the Union Government channelising all Government benefits (from Centre/State/Local Body) to the beneficiary's accounts directly.

IRDA has conducted awareness programmes for disseminating modest messages about the rights and duties of policyholders, channels available for dispute redressal, *etc.*, through both electronic and print media in the form of television, newspaper and radio commercials in vernacular languages.

Table 1 below gives the status of accounts opened as on 15.07.2015 under the *Pradhan Mantri Jan–Dhan Yojana:*

Table 1

(All Figures in Crore)

S. No.		No. of Accounts			No. of Rupay Debit Cards	Balance In Accounts	% of Zero Balance Accounts
		Rural	Urban	Total			
1	Public Sector Bank	7.24	5.98	13.22	12.25	15698.68	50.83
2	Rural Regional Bank	2.57	0.44	3.02	2.19	3493.76	50
3	Private Banks	0.41	0.28	0.69	0.61	1095.93	47.83
	Total	10.21	6.71	16.92	15.05	20288.37	50.59

Disclaimer: Information is based upon the data as submitted by different banks/SLBCs

Source: pmjdy.gov.in

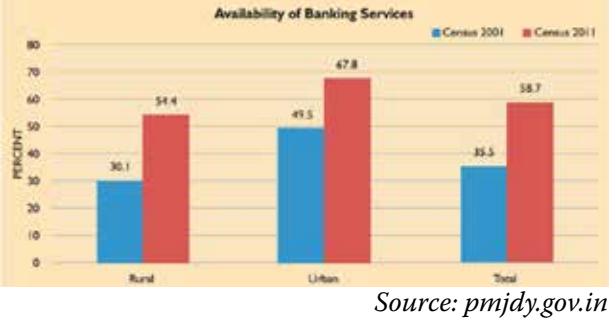
Current Status of Financial Inclusion in India

In India, even after six decades of post economic independence era, despite various measures for financial inclusion, poverty and exclusion continue to dominate socio-economic status of the country.

Fig. 2 below shows the Comparison of Census 2001 and Census 2011 in terms of Availability of Banking Services in India.

According to estimates of Census 2011, only

Fig. 2



Source: pmjdy.gov.in

58.7% of the households have access to banking services. The banking network as on 31.03.2014 of the country comprises of a bank branch network of 1,15,082 and an ATM network of 1,60,055. Of these, nearly 38.2% bank branches and 14.58% ATMs are in rural areas.

International Scenario

OECD has come out with *"Recommendations on Principles and Good Practices for Financial Education and Awareness"* with a view to help developed and developing countries in designing and implementing effective financial education programmes, which are enumerated below:

- Unbiased, fair and coordinated financial education should be promoted by Governments and all stakeholders concerned.
- Financial education, for youth should start at school in order to make them educated as early as possible.
- As a good governance practice, Financial education should be part of financial institutions for encouraging accountability and responsibility.
- Financial institutions should develop Codes of conduct for the staff so that clearly distinction can be made from commercial advice.
- Financial institutions should encourage their clients to check, read and understand all documents, mainly related to long-term commitments and significant financial consequences. The offer document shall avoid small printing and complex language.
- Important life-planning aspects, such as, basic savings, debt, insurance and pensions should be laid emphasis during Financial education programmes .
- Financial education programmes should be personalised and oriented towards financial capacity building, appropriately targeted on specific groups .
- Importance of the financial adequacy of current public and private pension schemes should be imparted especially to future retirees.
- Awareness Programmes, workshops, Summits, National campaigns, exclusive websites, free information brochures/desk/services, and warning systems on high-risk issues for financial consumers should be encouraged.

Worldwide, programmes on financial literacy have become an important component of financial policy reform. The World Bank study shows that high income (developed) and low income (developing and under developed) countries differently approach financial education.

For example, financial education on preparing individuals to make a choice from a wide range of financial products is of prime importance in developed countries. Here, financial literacy is shown to affect debt and mortgage outcomes as well as inflationary expectations. Also, it is co-related with retirement planning and more sophisticated investment behaviour.

In the developing and under developed countries, financial education focuses mainly on access to and take-up of financial services. Apart from this, financial literacy programs should encourage enhancing business knowledge.

Efforts of ICAI in Promoting Financial Literacy

In March 2007, The Institute of Chartered Accountants of India (ICAI) has been shortlisted by The Reserve Bank of India to be a part of its project Financial Literacy which was launched with a view to create awareness, especially among the common persons, on matters relating to banking, finance and central banking.

Literacy/Education

- Organising financial literacy programs like seminar, training and camps *etc.* jointly with Ministry of Corporate Affairs and on its own platform.
- Highlighting financial products/services through electronic media and print media.
- Releasing hand books on financial matters.
- Support the capacity building initiatives or training of trainers.

Delivery Channel for implementation

- School Curriculum
- Social Marketing
- Resource Persons
- Adult Education
- Self Help Groups and others
- Microfinance Institutions
- Integrated communication channels
- Helpline
- Other Channels

To address the basic problem of growth of equity in the country it becomes a necessary condition for financial deepening which could only be achieved by the nation-wide financial inclusion. This would transform and leverage the financial services sector in India.

Empowering rural India is of utmost importance and the government can effectively do so through financial inclusion. The Rangarajan Committee mainly suggested a mission called *National Rural Financial Inclusion Plan (NRFIP)* and recommended to establish Financial Inclusion Promotion and Development Fund and Financial Inclusion Technology Fund. It rightly stressed the importance of looking at financial inclusion in a holistic manner and has emphasised on the need to look into insurance and remittance needs of the poor.

In this regard, the Chartered Accountants, in association with micro-finance institutions, self-help groups and NGOs, can play a pivotal role. Financial inclusion, accepted globally as an explicit strategy for fostering economic growth, is a compulsion rather than a need. Financial inclusion is a must for inclusive growth of the nation.

Conclusion

In India, financial literacy is on the positive side now. As per survey conducted by the Financial Express, India has made rapid progress in the field of financial education among the ten leading nations of the world. India now is ranked second in the world with regard to financial literacy. According to ING consumer resourcefulness survey, India has financial literacy level of around 55%, second behind Japanese. The report further states, that in a sample size of nine citizens of nine other countries, majority of Indians have shown better skills in managing their financial budget and are also confident of facing any financial complications in future. All these developments can be attributed as a result of steps taken by the regulatory bodies like Reserve Bank of India, SEBI, IRDA, PFRDA, ICAI and other commercial banks, NGOs, SHGs and the government.

However, nearly 98% of Indian citizens still do not have a Demat account. A country where 48% of the population still depends on day to day earning cannot dream of saving and life insurance. However, if more and more synchronised and enthusiastic efforts are undertaken by aforesaid agencies, these inequalities could be overcome. ■