

Financial Literacy – An overview of growing efforts

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Abstract: *In the recent years financial literacy has become a much talked about phenomena. It is attracting the attention of not only central and state government, central bank and commercial banks but also the common man trying to meet his financial needs on a daily basis and planning for a safe future. The topic of financial literacy is relatively new, and not much of research is available particularly with respect to India. This paper summarizes the growing efforts in the field of financial literacy .An attempt has been made to understand the meaning of financial literacy and identify the need for it taking into consideration the previous research and literature as back ground . It also makes an attempt to identify the major players in the field of financial literacy and summarize their growing efforts in the field. The finding indicate Reserve Bank of India , Securities Exchange Securities exchange board of India (SEBI) and Insurance Regulatory and Development Authority (IRDA) are working actively towards promoting financial literacy The paper has implications for the policy makers in identifying the growing need for financial awareness and developing suitable financial literacy programs It will also help investors in better financial decision making and creating awareness about the importance of financial education besides providing a platform for future research*

Key words - financial literacy, commercial banks, financial needs, policy makers, financial awareness

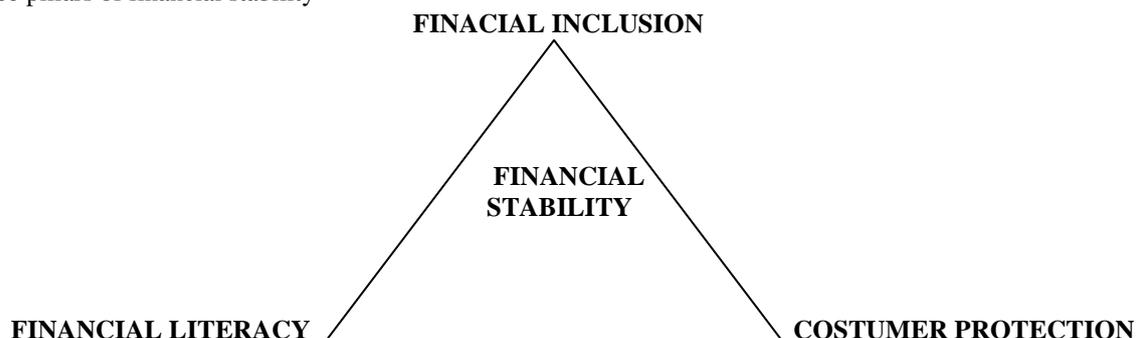
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INTRODUCTION

Financial literacy is nothing but knowledge about personal management of finances .It gives you the twin benefit of protecting you from financial frauds as well as planning for financially secure future .Financial literacy gives consumers the necessary the knowledge and skill required to assess the suitability of various financial products and investments available in the financial market . This benefit to the consumers translates itself in benefits to the economy as a whole.

Financial literacy has become very importance in the recent years, as financial markets have become complicated and as there is information gap between markets and the common person, leading to difficulties in making correct financial choices. India is among one of the world's most efficient and regulated financial markets. It has one of the highest savings rate in the world .While people in India prefer to save, the savings are not invested in a wise manner . A majority of Indian population do not use modern financial products. Unless the common person becomes informed and literate about the changes in the financial markets and products and protects himself from financial distress, wealth creation for the common man and the economy will remain a distant dream. We need to convert a nation of savers into a country of financially literate and wise investors to make Indian economy financially prosperous and stable

Three pillars of financial stability



OBJECTIVES

1. Understanding the meaning of financial literacy
2. Identifying the major players in the field of financial literacy
3. Summarizing the efforts made by different organizations* in the field of financial literacy

*Reserve bank of India(RBI) , Security exchange board of India (SEBI) , Insurance Regulatory and Development Authority (IRDA)

4. Suggesting innovative ways of spreading financial literacy

RESEARCH METHODOLOGY

An extensive study of previous research and literature, has been done to find out the meaning and the need for financial literacy as well as identifying major players in the field of financial literacy. Website, newsletter and monthly bulletin of (Reserve bank of India, Securities exchange board of India (SEBI) has been reviewed to collect the relevant material and summarize their growing effort.

Meaning of financial literacy

What is financial literacy ? Researchers have tried to define the term only recently. Financial literacy is viewed differently by different people, and this is reflected clearly in the definitions used in the literature. For few it is a broad concept, an understanding of economics and how individual financial decisions are affected by economic conditions and circumstances. For others, it means knowledge on basic money management: budgeting, saving, and investing

Mason and Wilson (2000) defined financial literacy as a *“meaning-making process” in which individuals use a combination of skills, resources, and contextual knowledge to process information and make decisions with knowledge of the financial consequences of that decision.*

Vitt et al. (2000) defined it as: *the ability to read, analyze, manage, and communicate about the personal financial conditions that affect material well-being. It includes the ability to discern financial choices, discuss money and financial issues without (or despite) discomfort, plan for the future, and respond competently to life events that affect everyday financial decisions, including events in the general economy (p. xii).*

According to RBI, Financial literacy can broadly be defined as

“Providing familiarity with and understanding of financial market products, especially rewards and risks, in order making informed choices” . .

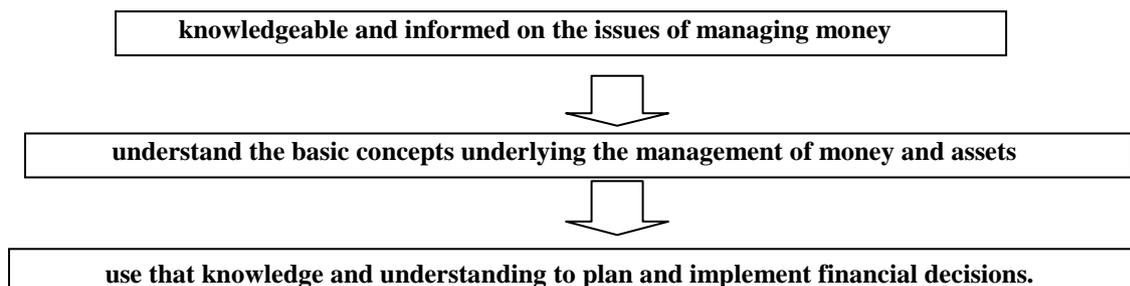
The Organization for Economic Co-operation and Development (OECD) has defined financial education as

'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'.

Thus, financial literacy is the knowledge, ability and skill to understand, control, and use one's financial resources wisely ultimately leading to the well-being and economic security of oneself, one's family, and the economy as a whole .

Thus it can be summarized that

Individuals who are financially literate are:



Efforts made so far in the field of Financial Education –

policy makers and financial regulators have recognized the need for financial literacy and are working actively towards it the major players being the Reserve bank of India, Securities exchange board of India ,and Insurance Regulatory and Development Authority PFRDA and commercial banks . The efforts of RBI, SEBI and IRDA are summarized below

RBI’s initiatives on Financial Education

Outreach visits by Top Executives of Reserve Bank of India to remote villages: The objective of these visits is to understand the ground level position, spread awareness about benefits of being connected to the formal financial system and disseminate information about the functioning of RBI.

RBI website - A link on Financial Education in the RBI website, containing material in English, Hindi and 11 vernacular languages, which includes comic books on money and banking for children, films, messages on financial planning, games on financial education and link for accessing the Banking Ombudsman Scheme.

Awareness - distributing pamphlets, comic books, enacting plays and skits, arranging stalls in local fairs, exhibitions, participation in information / literacy programmes organized by Press. Books on financial planning for students and new professionals have also been released.

Financial Literacy Centres (FLCs) have been opened by various banks with focus on the spread of Financial Literacy, to create awareness about financial products and provision of counseling facilities for customers of banks. There were 575 FLCs in the country as on September 30, 2012.

Conducting Town Hall events across the country, including in Tier II and smaller cities, bringing together commercial banks and other stakeholders.

Setting up of a **monetary museum by RBI** to create awareness about money and banking among general public and spread knowledge about the history of money.

Use of **mobile Financial Literacy** vans by banks in the North Eastern States

Awareness programmes on various Government Sponsored self employment schemes involving bank loans and subsidy by Government agencies like KVIC, DICs and SC/ST corporations.

Mass media campaign 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 large number of **Self Help Groups**.

Large number of **websites/portals of banks/ State Level Bankers Committees** disseminating information on banking services

‘Catch them young’ strategy In line with the ‘catch them young’ strategy for our financial education initiatives, the Reserve Bank launched the RBIQ, an all India inter school quiz competition, in 2012. The quiz seeks to be an effective platform for disseminating financial education by creating awareness and sensitization about the history and role of the Reserve Bank, about banking and finance, economics, current affairs, etc., besides seeking to build a ‘connect’ between the Reserve Bank and the young student community enrolled in schools across the country.

Association with the World Bank and the OECD As part of its efforts to gain from international perspectives on financial literacy initiatives, the Reserve Bank, organizes Conference on Financial Education association with the World Bank and the OECD.

National strategy on financial education The NSFE will be implemented in a timeframe of five years and aims to establish initial contact with 500 million adults and educate them on key savings, protection and investment-related products so that they are empowered to take prudent financial decisions. One of the objectives of the NSFE is to standardize the messages that various stakeholders seek to disseminate through their financial education initiative. The draft NSFE document identifies certain simple messages 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 recognized fact that the standardization will help in ensuring consistency in the messages reaching the target audience from various sources and making them more focused and powerful.

Financial literacy guide The Reserve Bank has released on its website on January 31, 2013, a comprehensive Financial Literacy Guide, which, banks have been advised to use as a standard curriculum to impart basic conceptual understanding of financial products and services. The financial literacy guide consists of Guidance Note for trainers, Operational guidelines for conduct of financial literacy camps, and financial literacy material, including posters. The guide also contains a financial diary to be distributed to the target audience, so as to enable them to keep a record of their income and expenses, as a first step towards financial planning.

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. The Resource Persons are given training on various aspects of finance and equipped with the knowledge about the financial markets. These SEBI Certified Resource Persons organise workshops to these target segments 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.

The **National Centre for Financial Education (NCFE)** has invited all school students from classes VIII to X to participate in its **National Financial Literacy Assessment Test (NCFE-NFLAT)**. to be conducted on January 12, 2014, the test would be of 60 minutes and would contain 75 questions. The test would be conducted in both, English and Hindi and it would include topics related to basic concepts of finance. Apart from attractive prizes to be won for students and schools, all students appearing for the test will also receive a participation certificate. There is no fee to appear in the test.

Investor education programs are conducted by SEBI through investor associations all over the country.

Regional seminars are conducted by SEBI through various stakeholders viz. Stock Exchanges, Depositories, Mutual Funds Association, 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.

Under ‘**Visit SEBI**’ programme, School and college students are encouraged to visit SEBI and understand its functioning. 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 issues.

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 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 conducts an **annual seminar on policy holder protection** and welfare and also partially sponsors seminars on insurance by consumer bodies.

IRDA has got a **pan India survey** on awareness levels about insurance carried out through the NCAER in a bid to improve on its strategy of crating insurance awareness.

IRDA has also brought out publications of ‘**Policyholder Handbooks**’ as well as a comic book series on insurance. A dedicated website for consumer education in insurance is on the verge of launch

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.

SUGGESTIONS FOR IMPROVEMENT

Several measures can be taken to improve financial literacy levels. The best way is to start early

Integration of financial education in High School Curriculum

Financial education should start as early as possible. Students who are going to be future citizens should be educated about financial matters as early as possible in their lives. OECD has developed Guidelines to assist policymakers and interested stakeholders in designing, introducing and developing efficient financial education programmes in schools. The guidelines specify a consistent and suitable framework for integration of financial education into school curricula. However, It needs to be clear that the financial education would not be another subject taught in the schools. What is required is its integration in the school curriculum. Maths syllabus in school already have elements of financial education such as percentage, interest, compounding, discount etc. these need to be presented in a modern setting that the students and the teachers will be able to identify with. Similarly, moral science courses could have content which are based on day to day financial transactions.

The Central Board of Secondary Education (CBSE) has appreciated the need of financial literacy as an important step to handle personal finance in present and adult life in an informed and skilful way. The CBSE

has agreed, in principle, to introduce it in an integral manner in school education (Post Primary Level) and to facilitate the process, a committee of experts has been constituted.

Social Marketing

Various ministries of Government of India have undertaken commendable programs of social marketing such as polio and small pox eradication, prevention of child marriage, preventing female foeticide etc. These campaigns can serve as models for conducting social marketing initiatives in financial education.

There is possibility of making use of

- Dedicated Financial Education websites
- News papers
- Radio and Television
- Use of Social Networking Websites like Facebook and Twitter
- Books / magazines in 'Cartoon Format' for young people

Resource Persons

The model undertaken by SEBI to impart financial education is by engaging Resource Persons across the country for various target groups. This initiative needs to be taken further and scaled up exponentially. Another easily scalable model as mentioned earlier for large sections of poor people could be conducting literacy courses across country through rural branches and LDMs of banks.

Adult Education

Financial education should form an integral part of the adult education.

Self Help Groups and others

Some of the Self Help Groups have helped in spread of financial education as its discipline requires the groups to maintain accounts and make budgets. The good work needs to be carried forward and put on a firm basis.

Microfinance Institutions

Many NGOs have been running successful financial education programs for their borrowers. These programs need to be dovetailed into overall strategy for people in other areas.

Integrated communication channels

While the channels like TV, Radio, Print and internet should be exploited fully; there is a need to leverage the existing extension works and projects carried out by various ministries such as efforts of agriculture ministry to spread knowledge through panchayats etc.

Helpline

There is a need of multi lingual, toll free helpline where an investor/ customer / client can call and get friendly assistance / support. It should be like a friend who is available to guide you in case of difficulties. All regulators can think of such initiative, if they have not already thought of it. It can play an important role in Financial Education.

Other Channels

There is possibility of making use of other established channels

- Consumers Associations
- Investors Associations
- Association of Policy Holders
- Stock Exchanges, AMFI, ANMI, SROs associated with regulators

Above mentioned associations are already doing work related to making their association members aware of their rights and responsibilities in a particular product category. They can further the cause of Financial Education Regulated intermediaries like Banks, DPs, brokers, PFMs, Annuity service providers etc. can play important part in making a person financially educated. They can make their consumers/ clients / investors aware of their rights and responsibilities. This can be done as part of product selling process.

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