Achieving Financial Literacy for Financial Inclusion

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ABSTRACT

Financial inclusion is one of the major socioeconomic challenges on the agendas of international institutions, policymakers, central banks, financial institutions and governments today. Financial inclusion is considered fundamental for economic growth and poverty alleviation in an economy. The World Bank has also declared their objective of achieving universal financial access by 2020. One of the important factors responsible for achieving financial inclusion is financial literacy. Financial literacy indicates people's understanding of financial products, concepts and risks; as well as their ability to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.

In this paper, the author outlines the financial literacy initiatives of RBI, the level of financial literacy in Gujarat state based on empirical research and suggests a 4-tier financial literacy Model that can help improve Financial Inclusion.

INTRODUCTION

Financial inclusion is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups (Leeladhar, 2006).

India is the second most developing economy in the world but the benefits of its banking services are not enjoyed by a larger mass of people. There should be a balance between the rural and urban economic growth for achieving long term sustainable growth. “Financial inclusion” (FI) plays an important role in achieving this objective.

In August 2014, Government of India announced an ambitious Financial Inclusion Program called the PMJDY – The Pradhan Mantri Jan Dhan Yojana. PMJDY is a National Mission on financial Inclusion incorporating an integrated approach to bring about comprehensive financial inclusion of all the households in the country. The plan proposes to provide universal access to banking facilities to all financially excluded individuals with at least one basic banking account for every household, access to credit, insurance, pension facility and financial literacy.

OECD (Organisation for Economic Co-operation and Development) defines financial literacy as 'the process by which financial consumers and 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'.

RBI has acknowledged that financial literacy is a crucial factor for promoting financial inclusion, consumer protection and ultimately financial stability and thus has adopted an integrated approach wherein efforts towards financial inclusion and financial literacy would go hand in hand (RBI, 2012).

RBI’S INITIATIVES FOR FINANCIAL LITERACY

A National Strategy for Financial Education (NSFE) has been finalized under the aegis of the Financial Stability and Development Council (FSDC) to encourage financial literacy and to co-ordinate efforts of various stakeholders involved in this process (RBI, 2012).

The NCFE (National Centre For Financial Education), comprising representatives from all financial sector regulators i.e. RBI, SEBI, IRDAI and PFRDA is set up under guidance of the Technical Group on Financial Inclusion and Financial Literacy of the Financial Stability and Development Council (FSDC) to implement the National Strategy for Financial Education (NSFE).

Moreover, more than 700 financial literacy centres have been set up by banks. There are Rural Self-Employment Training Institutes (R-SETI) also, working towards capacity building for taking up self-employment ventures.

RBI has recognized that lack of awareness is a major factor for financial exclusion. Hence it has taken a number of measures towards imparting financial literacy and promotion of credit counseling services. Some of these measures are outlined below:

- It has undertaken a project titled ‘Project Financial Literacy’ to disseminate information regarding the central bank and general banking concepts to various target groups, such as school and college going children, women, rural and urban poor, defense personnel and senior citizens. It would be shared with the target audience with the help of banks, local government machinery, schools and colleges as well as others using pamphlets, brochures, films and RBI’s website.
• The Reserve Bank has also created a link on its web site ‘For the Common Person’ to give him the ease of access to information, in Hindi, English and 13 regional languages. A ‘Financial Education’ site link on the Reserve Bank’s website was also launched on November 14, 2007, mainly aimed at teaching basics of banking, finance and central banking to children in different age groups.

• In May 2007, convener banks of the SLBCs or UTLBCs (State Level or Union Territory level Bankers Committees) were advised to set up, on a pilot basis, a Financial Literacy and Credit Counseling Centre (FLCC) in any one district in the State or Union Territory coming under their jurisdiction (Ramakrishnan, 2007). The objectives of the FLCCs are to provide free financial education and credit counseling - educating people in rural and urban areas with regard to various financial products and services available, providing face-to-face financial counseling services and formulating debt restructuring plans for borrowers in distress and recommending the same to formal financial institutions for consideration. Moreover, these FLCCs do not act as investment advice centres (Agrawal, 2009).

• Moreover, 718 Financial Literacy Centres (FLCs) were set up by the end of March 2013. A total of 2.2 million people were made aware through awareness camps, choupals, seminars and lectures during 2012-13. However, most of these FLCs have not been set up in rural areas. Thus the plan aims to expand the FLCCs to the lowest level. The focus would be on availing credit and getting rid of the exploitation by informal financial system (www.pmjdy.gov.in).

• RBI also has a scheme of ‘Depositor Education & Awareness Fund 2014’, which is created out of unclaimed money of the depositors, 10 years and above. It is also proposed that the financial literacy literature would be standardised by Indian bank Association (IBA). This would then be converted to vernacular language for dissemination.

• Thus to summarise, under this important implementation plan, revamping and expansion of FLCCs up to the bottom level would be done to increase its scope, course material for financial literacy would be finalised in consultation with all stake holders, effective use of technology would be done for training through video conferencing and regular monitoring and follow-up would be done to ensure that the plans are rolled out effectively.

OBJECTIVES AND RESEARCH METHODOLOGY

In order to determine the level of financial literacy, the author had conducted a survey in May-June 2013 of 315 urban poor and rural people in various districts of Gujarat. In August 2014, PMJDY was rolled out. Post the announcement of PMJDY as a National level Mission towards Financial Inclusion, another survey of 536 people was undertaken in October-November 2016, to understand the difference/improvement in financial literacy level. For this survey, separate districts were selected with an intention to cover a wider number of districts.

Table: 1 Financial Literacy Level (figures in percentages)

<table>
<thead>
<tr>
<th>Financial knowledge</th>
<th>Pre-PMJDY</th>
<th>Post- PMJDY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time Value of Money</td>
<td>12</td>
<td>36</td>
</tr>
<tr>
<td>Calculation of Interest and Principal</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>Inflation</td>
<td>24</td>
<td>35</td>
</tr>
<tr>
<td>Financial Planning – Goal setting</td>
<td>12</td>
<td>22</td>
</tr>
<tr>
<td>Diversification of Risk</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td>How Insurance works</td>
<td>2</td>
<td>23</td>
</tr>
</tbody>
</table>

![Figure: 1 Pre- and post PMJDY comparison of financial literacy level](image)

FINDINGS AND INTERPRETATION

It is observed that the overall financial literacy is very low. Only 12% people pre-PMJDY and 36% people post-PMJDY know what time value of money is. With only 23% people being able to understand the calculation of interest and principal, there is a high scope of exploitation by money lenders. Very few people - only 23% know how insurance works, inspite of the success of Pradhan Mantri Life and General Insurance schemes. (Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY). Thus, it is not enough that people are aware of financial products and services, they also need to know when, why and how to make use of those products and services.

STRATEGIC GUIDELINES FOR ACHIEVING FINANCIAL LITERACY

![Figure: 2 Financial Literacy Model](image)

Financial literacy is not just conducting a classroom session under a tree or in a school compound. It has various stages and all stages are critical to achieve the desired result out of financial literacy. The four financial literacy stages are:

1. Awareness
1. **Awareness**: The first stage of financial literacy is awareness. Prospective people need to be made aware of their need of banking products and services to help them achieve their life’s goals. Till the time they are not made aware of the need, they may not find it important or relate to knowledge on financial products, services and concepts. They may not even find attending a financial literacy camp worthwhile. Hence the first stage is to ensure that people willingly attend the financial literacy camps/seminars by making them aware of its benefits through widespread propaganda by distributing leaflets, loudspeaker announcements, addressing villagers in panchayat, public meetings, street-plays, etc.

2. **Knowledge**: The second stage of financial literacy is knowledge. Knowledge on financial concepts and services can be imparted by using the PMJDY and RBI presentations on financial literacy. Making people know how compound interest is calculated, how diversification reduces risk and how insurance offers protection, is important before offering them any banking products or services. In order to ensure that all people understand the concepts well, various games like marbles game, kabaddi, cards game, etc can be used. Mimes, local folk tales, local dance and music recitals and role-plays can also be used to make financial literacy sessions interesting and easy for people to learn and understand. The camps should also focus on how to use the various banking products and services by giving live demonstration and using role-plays and simulations to ensure practical absorption of knowledge.

3. **Attitude**: The third stage of financial literacy is attitude. No financial literacy effort is complete unless the knowledge imparted gets translated into change in attitude. It is only when people’s attitude towards saving money for future needs change that they will be able to appreciate and use savings accounts or book recurring deposits. It is only when people’s attitude towards borrowing as a means of creating income-generating assets rather than meeting short-term money requirements change, they will be able to appreciate and use loan products prudently.

4. **Behaviour**: The fourth stage of financial literacy is behaviour. The financial literacy program is incomplete till the time it gets converted into change in behaviour of financial literacy camp attendees. When people after becoming aware and gaining proper knowledge, change their attitude towards savings and come forward to open accounts, it can be considered that the financial literacy campaign is successful.

Thus to conclude, any financial literacy initiative needs to go through all the four stages to be able to contribute positively towards financial inclusion.

**REFERENCES**