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FINANCIAL LITERACY-A STUDY ON "THE ROLE OF INDIAN GOVERNMENT"

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Abstract

''Money, like emotions, is something you must control to keep the life on the right track".The economic growth and the expansion of the financial markets, have given the Indian consumer a plethora of investment products to direct his/her income. However, the low levels of financial literacy prevent the individual from making a judicious choice with regard to his/her financial planning. Hence, in order to ensure effective financial decision-making, it is high time that Indian Government and its agencies took the necessary steps in promoting financial literacy education to the citizens. Financial literacy is the ability to understand how money works, how someone makes, manages and invests it, and also expends it to help others. It also enables people to understand what is needed to achieve a lifestyle that is financially balanced, sustainable, ethical and responsible and also helps entrepreneurs leverage other people's money for business to generate sales and profits. Data has to be collected from multiple sources of evidence in addition to books, journals, websites and newspapers. The endeavor of this research paper is to study the need of the Government in taking active part in promoting financial literacy and toexamine the impact on common man. It is felt that the initiation took by the government and its agencies will be a road map to the economic development of India.

Keywords: Financial Literacy, Economic Growth, Financial Markets, Investment Products, Financial Planning.

Introduction

Financial literacy is the education and understanding of various financial areas. Financial literacy focuses on the ability to manage personal finance matters in an efficient manner, and it includes the knowledge of making appropriate decisions about personal finance such as investing, insurance, real estate, paying for college, budgeting, retirement and tax planning. Financial literacy also involves the proficiency of financial principles and concepts such as financial planning, compound interest, managing debt, profitable savings techniques and the time value of money. The lack of financial literacy or financial illiteracy may lead to making poor financial choices that can have negative consequences on the financial well-being of an individual. Consequently, the federal government created the Financial Literacy and Education Commission, which provides resources for people who want to learn more about financial literacy.

The main steps for achieving financial literacy include learning the skills to create a budget, the ability to track spending, learning the techniques to pay off debt and effectively planning for retirement. These steps can also include counseling from a financial expert. Education about the topic involves understanding how money works, creating and achieving financial goals, and managing internal and external financial challenges.

The Importance of Financial Education

Financial literacy helps individuals become self-sufficient so that they can achieve financial stability. Those who understand the subject should be able to answer several questions about purchases, such as whether an item is required, whether it is affordable, and whether it an asset or a liability.

This field demonstrates the behaviors and attitudes a person possesses about money that is applied to his daily life. Financial literacy shows how an individual makes financial decisions. This skill can help a person develop a financial road map to identify what he earns, what he spends and what he owes. This topic also affects small business owners, who greatly contribute to economic growth and stability.

Financial illiteracy affects all ages and all socioeconomic levels. Financial illiteracy causes many people to become victims of predatory lending, subprime mortgages, and fraud and high interest rates, potentially resulting in bad credit, bankruptcy or foreclosure.

The lack of financial literacy can lead to owing large amounts of debt and making poor financial decisions. For example, the advantages or disadvantages of fixed and variable interest rates are concepts that are easier to understand and make informed decisions about if you possess financial literacy skills. Based on research data by the Financial Industry Regulatory Authority, 63% of Americans are financially illiterate. They lack the basic skills to reconcile their bank accounts, pay their bills on time, pay off debt and plan for the future.

Financial literacy education should also include organizational skills, attention to detail, consumer rights, technology and global economics because the state of the global economy greatly affects the U.S. economy.

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Reasons for Financial Literacy

- Choice is everywhere.
- Increases your confidence.
- Can teach your kids with a slogan***, "Money doesn't grow on trees".***
- Spot a scam.
- Get the best value for your hard earned dollars.
- Manage debt before it manages you
- Set financial goals.
- Better quality of life.

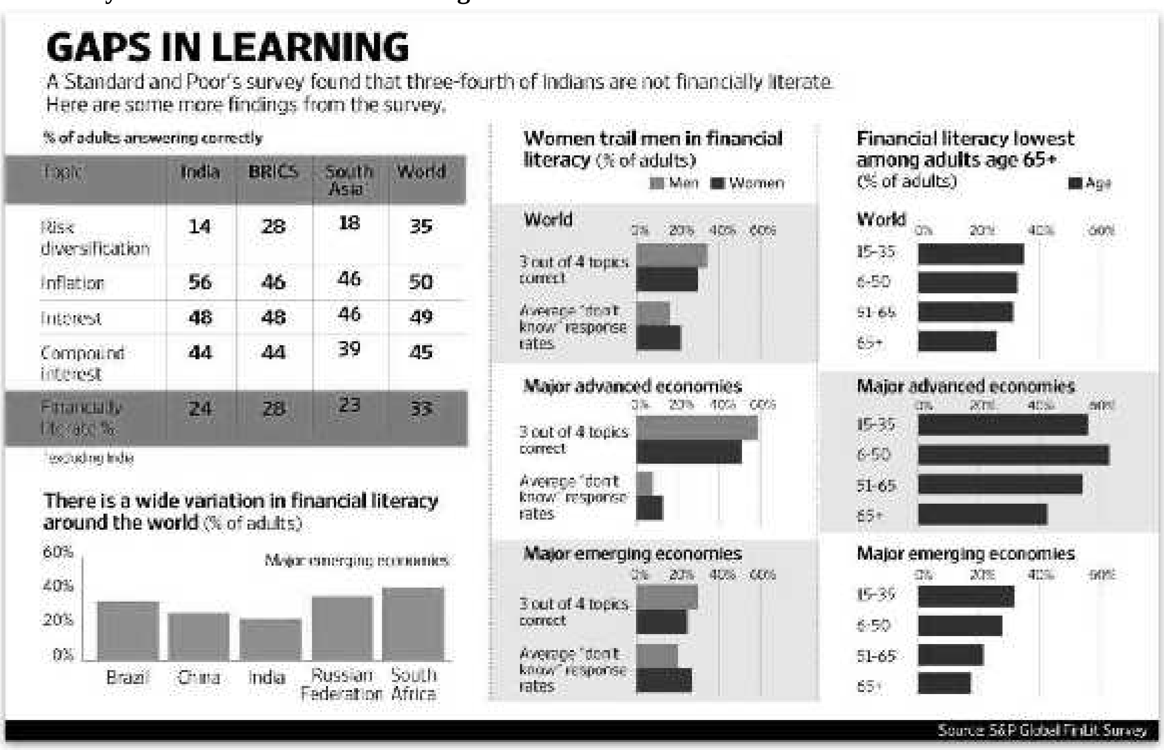
Financial Literacy in India

Financial literacy and financial inclusion are two aspects of financial stability in a country. When people are financially literate, they are more likely to explore the products and services offered by banks and use them for their benefits. This accelerates the pace of financial inclusion, where everyone can access the basic banking facilities rather than relying on the orthodox systems of money market such as borrowing money from zamindaars or village money lenders. Unfortunately, when it comes to India's financial literacy rate the statistics are quite shocking.

According to a survey conducted by Standard & Poor's, over 76% Indian adults lack basic financial literacy and they don't understand the most basic and key financial concepts.

While the number is much lower than the worldwide financial literacy rate, it's roughly in line with the BRIC and South Asian nations.

Financial Literacy in India: Statistics and findings



More about the Survey on India's Financial Literacy

The survey was based on the interviews conducted on 150,000 adults from 140 countries. The individuals were tested on their knowledge of four basic financial concepts: numeracy, risk diversification, inflation, and compound interest (savings and debt). The one, who answered three out of four concepts correctly, was defined as financially literate.

According to the survey, "Countries with higher literacy rates include Australia, Canada, Denmark, Finland, Germany, Israel, the Netherlands, Norway, Sweden, and the UK, where more than 65% of adults are financially literate. South Asia is home to countries with some of the lowest financial literacy scores, where only a quarter of adults—or fewer—are financially literate. Singapore has the highest percentage of financially literate adults (59%) in Asia."

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Here are some of the key findings on India's Financial Literacy.

- Only 14% Indian adults could answer questions on risk diversification while 51% understood compound interest and 56% were correct with questions on inflation.
- 39% of adults who have a formal loan are financially literate, while 27% of formal borrowers are not financially literate.
- A mere 14% of Indian adults save at a formal institution.
- Going by the gender gap, 73% of men and 80% of women in India are not financially literate.
- 26% of the adults in the richest 60% of households are financially literate, while 20% of the poorest 40% of households are financially literate.

Another survey of "Financial Literacy among Students, Young Employees and the Retired in India" conducted by IIM-A supported by CITI Foundation reveals that" high financial literacy is not widespread among Indians where only less than a quarter population have adequate knowledge on financial matters. There is lack of understanding among Indians about the basic principles of money and household finance, such as compound interest, impact of inflation on rates of return and prices, and the role of diversification in investments."

Clearly, the statistics are disappointing. The lack of essential knowledge on financial matters and inability to manage personal finance not only affect on household, but makes an economy as a whole suffer too.

Like it said earlier, financial inclusion and financial literacy are two essential ingredients of an efficient economy. While, financial literacy can accelerate financial inclusion, the vice versa may not hold true.

Financial inclusion is a priority in our country and the Govt. has been fairly active on its strategies on financial inclusion where various schemes are being introduced and awareness campaigns are being held from time to time. But owing to the existing bottlenecks in terms income disparity, poverty, gender gaps and all, the implementation of financial inclusion policies has been challenging too.

For example, when Pradhan Mantri Jan Dhan Yojana, a National Mission on Financial Inclusion kicked off in 2014, the result was record-breaking. About 214 million zero balance accounts were created, which means a huge segment of population could access banking facilities at a nominal cost.But, unfortunately this many number of accounts do not ensure financial literacy. If it had, our performance in Global Financial Literacy wouldn't have been this poor.

In an article on Financial Inclusion published in Economic Times, Rajat Gandhi rightly says that, "No matter how many banks you open and how many boots you have on the ground, if a person does not know about the financial options that are open to him, policies, schemes and financial instruments will mean little. It is important for a person to firstly know what to look for and only then think of the benefits that he can obtain from it."To make things clear, financial inclusion focuses on volume or quantity whereas financial literacy is more about quality.

While financial inclusion emphasize on creating more accounts in order to make the common banking facilities easily accessible to all, financial literacy emphasize on expanding the knowledge on financial matters and products so that one can,

- Understand how to use and manage money and minimize financial risk
- Manage personal finance quite efficiently
- Identify the benefits and facilities offered by banks and boycott the dodgy moneylenders.
- Derive the long-term benefits of savings

What should be done to increase Financial Literacy in India?

Considering the scenario, deliberate actions to promote financial literacy is the need of the hour. Before initiating the steps, the target group should be divided on the basis of their age, income, education and gender and given opportunities to enhance their financial literacy in a more simple and easy-to-understand manner. Here are few factors that can help.

Financial Literacy Month

April is designated as the Financial Literacy Month in the United States in an effort to educate Americans about the importance of financial literacy and help and encourage them to establish and maintain healthy money habits. In Canada, November sees the Financial Literacy Action Group (FLAG) "raise awareness of the need for financial literacy and highlight the programs, services and tools available to help Canadians improve their financial knowledge, skills and confidence."
Now who else needs a month dedicated to financial literacy? India!

Countries that boast high financial literacy rate observe financial literacy month. In US April is considered as the month of financial literacy where efforts are taken to educate the citizens about the importance of financial literacy and why it's important to maintain healthy financial habit. India too needs to realize the importance of Financial Literacy month.

Five Reasons Why India Needs a Financial Literacy Month

- In a survey on global financial literacy in 2012 by Visa, Indians emerged as one of the least financially literate among 28 countries. Indians ranked low in this survey for several reasons, including the lack of household budgets, money management discussions with family, financial education or an understanding of money management basics. Indians were ranked as 23rd out of 28 countries with only 35% of Indian respondents emerging as financially literate.
- Indian families discuss money matters including budgeting, saving and responsible spending habits with their children just 10 days per year, this survey tells us. The reason? 43% women and 20% men said they did not understand personal money management well enough to discuss the subject with their children.
- A Survey of Financial Literacy among Students, Young Employees and the Retired in India by IIM Ahmadabad supported by Citi Foundation concluded that only 22% of students have high financial knowledge while 50% scored only a very low on the financial knowledge barometer. Further only 45% got a correct response to a question on compound interest and only 43% understand how inflation affects prices.
- The IIM survey also indicated that awareness of financial products is generally low among employed adults with only about 7% aware of all the commonly available products. Awareness about fixed deposits, one of the most popular financial products, is also not universal. More than half of young employees are not aware of employee specific tools like PPF and pension-fund. Most rely on friends and relatives, and of course, the Internet when it comes to choosing financial products and services!
- Another survey on the elderly by Help Age India indicated that 79% of India's oldest old are financially dependent on their children. This financial dependency was highest in Delhi NCR at 90%, with Kolkata next at 84 %, followed by Ahmadabad at 83%. Hyderabad did the best at 40%.

With statistics as shocking as these it's time we all need to wake up and take action NOW. As the IIM survey wisely notes, "the lack of awareness has implications both for households and for the broader economy."

That's why we need financial education to understand how money works, to feel confident of making the right financial choices and for securing the financial futures of our families. So that children are not misguided in money matters and adults don't fall for ponzi schemes.We don't just need a month dedicated to financial literacy, but we need financial education in our schools, colleges, homes and offices.

Including Financial Literacy in School Syllabus

Financial literacy should begin at school stage,when children are aware of the concept, they can influence their families on the importance of savings and take necessary steps to better manage their money. Thus, spreading the concept of financial literacy by inculcating banking habits and creating financial awareness among children is a great help.

The Role of Technology

We all are living in a digital era. The role of technology in financial literacy thus can never be overlooked. Financial literacy through the use of technology can be accelerated via three medium- computer, mobile, and internet. With mobile phones getting more convenient each passing day, it's easier to reach people through the platform. The platforms should so designed that whenever somebody needs financial advice, they can easily access the necessary information.Technology allows independent learning and it is important to exploit the means in our advantage.

Constitution of Committee on Medium-Term Path on Financial Inclusion

Wider use of financial services is the key to economic progress and overall well being. In this context, Hon'ble Prime Minister in his address at the RBI on occasion of its 80^{Th} anniversary urged the Bank to take lead in encouraging financial institutions and to set a medium –to-long term target for sustainable financial inclusion. This committee was formed and following are recommendations

The guidelines by the United States can be used by any government or organization to steer the development of new programmes or to enhance existing programme strategies. These eight elements of a successful financial education programme, developed by the Treasury Department's Office of Financial Education, suggest that to be successful programmes need to be focused, be tailored to intended audiences, reflect a commitment to public outreach, set specific goals, and have results that can be replicated.

The Eight Principles are as Follows

- **Basic Tenets:** Focus on one or more of the four building blocks to achieve financial security: basic savings, credit management, home ownership and retirement planning.
- **Target Audience:** For greater efficacy, it is important to take account of the language, culture, age and experience of the target audience.

- **Local Distribution:** Deliver the programme through a local distribution channel that makes effective use of community resources and contacts.
- **Follow up:** To reinforce the message and ensure that participants are able to apply the skills taught, it is important to follow up with the participants.
- **Specific Programme Goals:** Establish specific goals and use performance measures to track progress towards meeting those goals.
- **Demonstrable Impact:** Use testing surveying and other objective evaluation to demonstrate a positive impact on participants' attitudes, knowledge or behavior so as to prove a programme's worth. The demonstrable impact would be whether participants increased savings, opened bank accounts or saved for a home, among others.
- **Replicability:** The programme can be easily replicated on a local, regional or national basis.
- **Built to Last:** Programmes have continuing financial support, legislative backing or integration into an established course of instruction.

Institutional framework on financial literacy needs to focus on delivery on the ground. The financial literacy efforts of the Reserve Bank are steered by the Technical Group on Financial Inclusion and Financial Literacy (TGFIL) of the FSDC Sub-committee. A National Centre of Financial Education (NCFE) was established for implementation of the national strategy for financial education. Awareness programmes in the form of a national financial literacy assessment test, financial education training programme for teachers and greater use of social networks is contemplated. The TGFIL is planning special financial literacy campaigns for adults who are newly inducted into the financial system, financial literacy through mass media and financial education in the school curriculum. The Central Board of Secondary Education (CBSE), in consultation with the regulators, has developed a financial education workbook for Classes 6 to 10.

At the local level, as on June 2015, 1,226 financial literacy centers (FLCs) set up across the country by lead banks conduct financial literacy camps. Comprehensive financial literacy material was prepared by the RBI that consists of a financial literacy guide for trainers, a financial diary and a set of posters, all translated into 13 languages.

Recommendation 1
The Committee recommends that the Reserve Bank commission periodic dipstick surveys across states to ascertain the extent of financial literacy and identify gaps in this regard. The results can provide policy-makers with a better understanding of the demand-side challenges.

Banks and financial service providers need to be sensitized to consumer protection and grievance redressal with adequate monitoring.

The Reserve Bank has a dedicated Department—the Consumer Education and Protection Department (CEPD) —for both customer complaints about banks and complaints about the Reserve Bank. Further, the Banking Ombudsman Scheme (BOS) is the main system in place for grievance redressal under which the 15 Offices of Banking Ombudsmen (BO) located across the country receive and examine complaints on 27 grounds specified under the Scheme. Complaints that fall outside the purview of the BO Scheme (non-BOS complaints) are handled by the Consumer Education and Protection (CEP) Cells of the Bank's regional offices.

To give formal recognition to consumer protection, the Charter of Customer Rights was released by the Reserve Bank in December 2014. These rights encompass over-arching principles for better customer service to be extended by banks and comprise five basic rights: Right to Fair Treatment; Right to Transparency, Fair and Honest Dealing; Right to Suitability; Right to Privacy and Right to Grievance Redress and Compensation. Almost all banks have put in place such policies.
Banks are required to constitute a Customer Service Committee of the Board and have a Board-approved policy in key areas, such as those with respect to deposits, cheque collection, customer compensation and grievance redressal. Banks have been advised to establish customer service committees at the branch level. The Reserve Bank has also advised all public sector banks, select private banks and foreign banks to appoint an Internal Ombudsman.

On review, the Committee felt that although an institutional framework on grievance redressal exists, both in the Reserve Bank and in banks, the mechanism needs to focus on delivery at the ground level.

Recommendation 2
The first pillar of complaint and grievance redressal is the branch, failing which it is the bank's internal ombudsman. Each branch should, therefore, be required to prominently display the name, phone number and email address of the designated officials for such complaints. The Reserve Bank should ensure compliance through random branch visits.

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Recommendation 3
The Reserve Bank Banking Ombudsman at regional offices may make periodic field visits to directly receive customer complaints.

Recommendation 4
While continuing with the existing mechanism, all regulated entities would be required to put in place a technology-based platform for SMS acknowledgement and disposal of customer complaints, which can provide an audit trail of grievance redressal. All banks must have an online portal for customers to file complaints.

Recommendation 5
Banks may be required to submit the consolidated status of number of complaints received and disposed off under broad heads to the CEPD, and the Reserve Bank, in turn, can release an annual bank-wise status in the public domain.

Recommendation 6
The Banking Codes and Standards Board of India (BCSBI) in collaboration with the Banking Ombudsman and the Indian Banks' Association (IBA) can explore the possibility of devising a scheme based on transparent criteria that incentivizes banks to expeditiously address customer grievances.

Range of Sources
Before we make any investment, just like Vidhata did, we must check numerous sources of information. This is because every source that you use may have its own way of looking at a financial product. Using only a single source is likely to give you incomplete information about a product. So, always check more than one source and form your own opinion about which product suits you best. Here is a list of sources from which information on the above is available:

TV Programmes
There are many business channels on television these days. The programmes on these channels are in English, Hindi and regional languages too. Some of them are more basic and explain the foundations of finance and products while others are more advanced. Some merely tell us the business and economic news. We must watch a good mix of education, news and analysis programmes.

Newspapers and Magazines
As long as we are able to read, there are plenty of articles available that will give us education, news and analysis. While reading these may take more time than watching television, they are likely to give us more in dept information that the Television since it is not possible to clutter a TV programme with facts and figures. A printed source also allows us to revisit information from time to time to make sure we have understood it well and in the right context.

Annual Reports
If we invest in shares, we must keep a track of the performance of a company through its annual report. The annual report not only tells us about the financial performance of the company during the past year or two, it also tells us about the management's plans for the future of the company.

Company/Bank Websites
Websites of firms tell us a lot about their performance, achievements, attitude towards the business and future plans. If we learn the basic use of the internet, we can easily find information on any company that we want to know more about.

Searches on the Internet and Blogs
Sometimes we may want to know more about an industry or an issue. This information may not be available on the websites of companies. If we learn to search for information, with the help of search engines such as Google or Yahoo, we can get the answers to most of the questions that we have in our minds. If we are still not satisfied, we can go to the blog sites of people who share their views on various topics and put forward our queries there. Remember, however, that every answer that we receive on internet blogs should be checked with other sources too.

Brokers and Financial Experts
People with experience in finance are sometimes a valuable source of information. They are likely to understand your query like no other source and give you a specific reply to it. Here again, make sure that you do not act only on the advice of one or two people. Your investment decisions should be based on a broad understanding gathered from various sources.

Some Advisors that you can turn to are

- Certified Financial Advisors (by FPSB) ,
- Licensed Stockbrokers (By SEBI/NSE/BSE),

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- Authorized insurance agents (By IRDA/Insurance Company),
- Financial Literacy and Credit Counseling Centers (By RBI/Nationalized Bank) and
- Authorized Business Correspondents (By RBI /Banks).

They could not only give you advice but help you with your financial planning exercise also.

Friends and Family

Unless your friend and family circle contains qualifies experienced experts, use this source more for debate and discussion than actual information gathering or advice. Discussion and debate on financial products and issues is also important. It can help you to confirm your opinions and may open up queries that did not occur to you.

Regulators led by the Reserve Bank of India (RBI) and the Securities & Exchange Board of India (SEBI) have unveiled a draft National Strategy for Financial Education.

There are several other stakeholders, including banks, finance companies, nonprofits and regulators, such as the Insurance Regulatory and Development Authority (IRDA) and the Pension Fund Regulatory and Development Authority (PFRDA). The IRDA has also created a comic strip character — Ranjan — to explain insurance. The PFRDA is charting out its course for financial education. Both these bodies were part of the subcommittee of the Financial Stability and Development Council (FSDC) that prepared the draft report on financial education. The FSDC is a super regulator created by the government in the aftermath of the global financial crisis.

As a private sector company, Money-Wizards deal with less bureaucracy than many public efforts. The organization has started summer camps for schoolchildren that teach financial basics. The young people are sold on the “fun” element; the parents on the “education” part.

Conclusion

Financial literacy is an essential pre-requisite for ensuring consumer protection. The low levels of transparency and the consequent inability of consumers in identifying and understanding the fine-print from a large volume of information leads to an information asymmetry between the financial intermediary and the consumer. In this context, financial education can greatly help the consumers to narrow this information divide. Besides, knowledge about the existence of an effective grievance redress mechanism is essential for gaining the confidence of the unbanked population and overcoming apprehensions they may have about joining, what would appear to be a complex and unfriendly financial marketplace. For the population group that would have newly entered into the formal financial system through our financial inclusion initiatives, awareness about the consumer protection mechanism is critical as any unsavory experience could result in them being permanently lost to the financial system.

While a number of measures have and are being taken across the country, given the enormity of the task, a lot of ground still needs to be covered. Apart from the Government and the regulatory bodies, there is a need for involving the civil society and all other stakeholders in spreading financial literacy. We need to evolve distinct strategies targeting the school children and the adult population. We are still evolving a formalized curriculum for schools, which teaches the schoolchildren the basic principles of money, credit, savings and investments and introduces them to the way our financial system operates. After all, while one-time, targeted programmes are useful, including financial education into school curriculum in an on-going manner would hold the key to making our future generations financially literate. We must congratulate the UNDP, NABARD and Micro Save for their contributions to improving the quality of lives of the poor through their financial literacy initiatives. However, the widespread existence of financial illiteracy indicates that we need to do a lot more.

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