

FINANCIAL LITERACY, FINANCIAL EDUCATION AND STRATEGY

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“No matter who you are, making informed decisions about what to do with your money will help build a more stable financial future for you and your family.” Alan Greenspan

ABSTRACT

This article is a policy paper on the Strategy for Financial Literacy in India. Literacy is known to be different from education. While literacy seeks to equip you with facts, data and information, education calls for internalizing or putting into practice these facts, data and information. In India, the National Centre for Financial Literacy (NCFL) is a body which has taken the onus of measuring the level of financial literacy among school students. This institution seems to have done little towards the spread of financial literacy. Simply conducting financial literacy tests and measuring the level of financial literacy will lead us nowhere unless the appropriate infrastructure to disseminate financial knowledge is in place and its existence is made known to all. This literature proposes creation of a central repository of financial literacy material by the technical Sub-Committee of Financial Stability and Development Council (FSDC)¹ on Financial Inclusion and Financial Literacy. The committee shall work towards its Vision of a Financially Aware and Empowered India by creating awareness about the need for financial literacy, establishing information distribution infrastructure, effectively launching a 24x7 financial hotline facility and implementing the said using tailor made information dissemination strategies. The literacy material of the sub-committee to focus on the primary pillars of financial education – compound interest, volatility management and consumption-saving trade-off while explaining various financial concepts. The FSDC has adequate representation in paper from the major financial markets and their respective regulators' head. In addition to the above, the article proposes to enlarge its vision by inclusion of representation from financial academicians. We also speak about introduction of financial literacy curriculum at the secondary and senior secondary level with intervention of the MHRD. Spread of financial literacy is a precursor to financial education which once achieved will lead India into the league of financially sophisticated economies relying heavily on paperless money, the benefits of which are known to all. The article is presented in three sub-parts – I: Introductory thoughts, II: National Strategy for Financial Literacy and Education - Vision, Mission, Goals, Strategic Action Plan and III: Action required to be taken and by whom.

KEYWORDS: Financial Literacy, Financial Education, Financial Stability and Development Council, Financial Hotline, Compound Interest, Volatility

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1. INTRODUCTION

When we start to talk about “financial inclusion”, it is the start of a New Wave of economic development, very much like what Swacch Bharat Abhiyan will do for India’s sense of well-being. No doubt, the creation of Bank Accounts for everybody is a valid first step; it now needs to be supplemented with a full-fledged programme that creates the knowledge, understanding and skill-sets that will underpin a vibrant financial economy.

A sophisticated financial economy calls for its people to be ‘financially literate’. How can you bring a cashless, M-Payments economy to a people who don’t yet understand anything but physical money, i.e. cash and gold? Nigeria is known to have shown the way with the highest M-Pay penetration in the world. How long did it take to teach one of the poorest societies in the world, the advantages of a cashless society: theft and muggings are down, there are audit trails for small businesses, your money is password-protected and unlike cash, termites cannot get at it. When Nigeria could leapfrog into being a cashless society without having to go through the problems of a credit card society, India can certainly do better.

The OECD International Network on Financial Education (INFE) has postulated financial literacy as, “A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” We are all aware of Literacy being different from Education: the former is about data and information, while the latter is about learning and wisdom. So what then is the meaning of a “financially educated” population? According to OECD, Financial education is “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”.

Though awareness and knowledge can be created with the help of appropriate infrastructure in place but for influencing attitudes and behavior of people, this knowledge needs to get internalized. The difference between knowing knowledge and “internalizing knowledge” can be simply understood: knowing that you shouldn’t jump red lights and actually stopping at them. The starting point in India for now should be providing financial data and knowledge i.e., A National Strategy on Financial Literacy and Education. The need to formulate and implement a National Strategy on Financial Literacy and Education can be attributed to the following reasons:

- i. Inclusive Growth, Financial Inclusion & Financial Education:
Financial Education plays a crucial role in making demand side

respond to the initiatives of the supply side interventions. 'Financial literacy, and education, plays a crucial role in financial inclusion, inclusive growth and sustainable prosperity' (From speech delivered by Hon'ble former Union Finance Minister, Shri Pranab Mukherjee during RBI-OECD Workshop on Delivering Financial Literacy in March 2010). Bringing everybody into the banking fold will get people's money into circulation via banks. Add to this, people's acumen in not only protecting their money but also wisely growing it by knowing the nuances of compound interest and volatility. This shall prevent exploitation of hitherto illiterate (financially) population at the hands of unscrupulous and fly by night operators promising extraordinary returns.

- ii. Complex Financial markets: Financial markets are complex like never before offering an array of products, services and providers to choose from. Though this choice provides consumers a great deal of options to choose from, yet knowledge and information of such products and services along with skills to evaluate them are necessary to identify those that best suit the needs. This shall protect society and individuals against exploitative financial schemes and exorbitant interest rate charged by moneylenders.
- iii. Financial literacy can empower consumers in financial planning by optimizing their household budgets, providing greater opportunity to consume and save, making strategic investment decisions such as retirement planning, children education, marriage and so on.
- iv. Promoting entrepreneurship: Educated small entrepreneurs will benefit through awareness about new financial products. This will help them understand the dynamics of market mechanism and improve their business dealings by knowing which sources of finance to tap and how to hedge their market positions.
- v. Positive Spill-over effects: 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 (National Strategy for Financial Education).

2. NATIONAL STRATEGY FOR FINANCIAL LITERACY AND EDUCATION - VISION, MISSION, GOALS, STRATEGIC ACTION PLAN

"Financial education provides the tools people need to realize their dreams for themselves, family and friends. These standards are the result of a great public/private partnership that will give teachers the tools they need to incorporate this very important curriculum into their classrooms."

Secretary Lorrie Keating Heinemann, Task Force Member Department of Financial Institutions, Wisconsin.

This literature proposes creation of a central repository of financial literacy material by the technical Sub-Committee of Financial Stability and Development Council (FSDC) on Financial Inclusion and Financial Literacy. Though the National Centre for Financial Literacy (NCFL) is already in place but it seems to have done very little when it comes to spreading financial literacy. Simply conducting financial literacy tests and measuring the level of financial literacy will lead us nowhere unless the appropriate infrastructure to disseminate financial knowledge is in place and its existence is made known to all. Measuring level of financial literacy is needed to form policy, set targets and track progress. We have moved in this direction insofar as measuring the level of financial literacy is concerned. The FSDC sub-committee on Financial Inclusion and Financial Literacy shall be responsible for the spread of financial literacy among persons of India. It shall quarterly assess the success of its strategy, followed by the Sub-Committee meeting of all members to plug the deficiencies and create a roadmap ahead.

The National Strategy for Financial Literacy and Education can be viewed as follows:

Vision: A financially aware and empowered India.

Mission- To undertake massive Financial Education campaign to help people manage money more effectively to achieve financial well being by accessing appropriate financial products and services.

Goals:

- To provide easy access to relevant financial information on a platform most suited to the target.
- To help Indians discern the difference between financial literacy and financial marketing. More often than not, companies are seen advertising their financial offering in a manner that can be misconstrued as education by the audience to the benefit of the company. Through rigorous advertising by the Sub-Committee, this shall be brought to public light and an unbiased database of financial literacy material be provided by the same.
- Change attitudes to translate knowledge into behaviour.
- Make consumers understand their rights and responsibilities as clients of financial services.

How to achieve the goals envisaged?

1. Bring to surface the need for financial literacy. This can be achieved by

way of rigorous TV, radio, newspaper advertisements that put forth the need to manage finances and highlight in the same the sources of financial literacy. Frequent exposure to such advertisements will actually lead people to consider it and once they do this, they feel the need too.

2. Create awareness of resources available. Though several governmental and non-governmental organizations are currently involved in spreading financial literacy and there is ample material available on various websites, there is great need to create awareness of existing resources. This can again be achieved through rigorous advertisements on TV, radio and newspapers.
3. This step calls for creation of information distribution infrastructure by the FSDC technical Sub-Committee on Financial Inclusion and Financial Education in the form of an online portal and a handy mobile application: a clearinghouse of financial information literature where financial literacy material has been uploaded with the collective wisdom of the Sub-Committee members, financial academicians and researchers. This website and application shall be a one-stop stable for all financial queries of consumers- balancing a checking account, taking an automobile/house/tractor, etc loan; planning for medical needs, retirement ; planning for higher education, and so on. It shall lay out unbiased information on how to understand, evaluate and compare financial products and services. The mobile platform for this programme shall enable people to learn while on move – in metro, bus, train, waiting for a friend, and so on. The literacy material to be provided in English and other vernacular languages.
4. The Sub- Committee to also start a 24x7 hotline facility to provide financial remedies to people in distress who do not have access to internet. This shall be kind of a financial call centre for such people providing solution in English and vernaculars. A toll-free number to be provided that can be dialled both by landline as well as from mobile phones.
5. Online and mobile money games to start. Social media can provide a broad platform for such games. This shall play a major role in internalizing financial knowledge.
6. The next step shall be Tailoring knowledge dissemination strategies target-wise:
 - Financial literacy material as designed by the technical Sub-Committee to be taught to school children as part of curriculum for classes 10th and 12th. The examination so conducted will serve as a measure of financial literacy year on year.

- The otherwise literate and financially illiterate, may use the Sub-Committee website to augment their knowledge in the area- when in need to make financial decisions.
- India is diverse country housing over a billion people who are diverse in multiple respects. So a 'one size fits all' strategy will not work here. In remote and backward areas, weekly classes/interactions with members of NGOs/ hired by companies can be scheduled to create awareness about financial literacy and stringent checks be imposed to ensure its enforcement. We need to impart simple messages of financial prudence like importance of savings, borrowing within limits and using formal financial intermediaries. Adult education methodologies like Role plays, charts, informal discussions, games, and other audiovisual modes of communication would also be ideal for such groups.

In addition to adult teaching methodologies, the literacy material to be used by community educators and NGOs to be the same as provided by the commission on its site. This shall avoid duplication of efforts. By creating a central repository of literacy material, we can ensure that the consumers and educators alike have an easy access to reliable, timely, unbiased and updated information about financial products and services. A meeting with the Business Correspondent (BC) be fixed weekly in unbanked regions to bring people in the banking fold. The Business Correspondent to act as a banking intermediary between the rural population and the bank, appointed by the bank (RBI Financial Literacy Guide).

Though in ink BC is available in the RBI Financial Literacy Guide but little has been done to ensure its effective implementation. Participation of local governments, private players and NGOs is sought for spread of financial literacy. The financial literacy campaign in rural India can be conducted by corporates as part of CSR. An yearly award be instituted by the FSDC Sub-Committee for Financial Capability Excellence to be awarded to corporates that do significant work in this area.

The financial literacy material to be decided by the collective wisdom of the Sub-Committee through active brainstorming(asking questions – what do you wish you had learned in school for your own financial literacy, financial control, interest computation, overdraft, credit card, insurance, retirement plans, mortgage, loans, other kinds of credit, hedging risk, consumption, saving, investment, etc.). Once the resource content is decided, the Sub-Committee is to get together to set the learning standards and keeping in mind the standards, the content to be finalized and uploaded on the commission website and app. The same content to be taught in schools as well. We are going over only a few of the cornerstones that build a financially educated society. Let us broadly

point them out here in brief. They are- compound interest, volatility and trade off between consumption and saving. The financial literacy strategy shall have two broad target groups –First, the rural India that depends on farming for its livelihood which constitutes roughly 70% of our population and second, the urban youth that contributes the most to our GDP.

Learning about how to handle the volatility embedded in financial decisions is a very big part of a financially mature society. Whether you like it or not, the poor have to deal with a lot of volatility in their financial decisions. Almost everything they have to deal with goes up and down....while it is in the nature of humans to look for stability, what we actually face in life is a preponderance of volatility. India is an agrarian economy. Consider the Indian farmer, who sees his inputs (seed, fertiliser/pesticide, power/ water and harvesting/storage and transport costs) all fluctuate. His productivity is dependent on an erratic monsoon and his product prices also fluctuate. Now if he had a financial market where he could go and fix his prices, at least he could protect his realizations. And there are such mechanisms available, some private (like ITC's e-chaupal) and some public (the commodity exchanges), but they are not developed enough, or all-encompassing enough to make a meaningful impact.

Government needs to design and build perfectly competitive markets at all the nodes where financial decisions get taken and “assets get allocated”. These market-places would sit at the point where many buyers and many sellers would congregate and make their choices, and price discovery would be efficient. In many cases, the spread of smartphones in each hand (which would very soon be a reality with allocation of the 4G spectrum) would allow for electronic trading and hedging. Volatility is a double edged sword. It becomes an asset if you know how to deal with it and it is also capable of becoming your worst enemy if you run away from it. The more you avoid it, the faster it chases you. So we need to empower people to manage volatility.

People generally cannot carry out computations such as computing compound interest, which cause them to make suboptimal financial decisions. The FSDC sub-committee website and the app to teach the basis of compounding; this shall help people evaluate different financial products and investment schemes. The website and the app should also be equipped with a compound interest calculator in which people simply feed the period and yearly investment, and the calculator shows the earnings accruing or the compounded expense, whatever the case may be.

Another reason why people make sub-optimal financial decisions is the present-bias, i.e. people prefer current gratification over higher future consumption. This leads to sub-optimal saving and investment decisions.

People can be induced to save and invest such that higher future returns can be used to meet major cash outflows- education, business, retirement, medicine, etc. People fail to understand the difference between productive and unproductive investment. An investment in gold, for example is based on the 'greater fools' theory in which an investor seeks to make money on the premise that a greater fool will someday buy it for more. Likewise the chain moves on exaggerating the price of the unproductive asset. Such an investment does no good to anybody in the long run. Contrary to this, an investment in equity market will provide fuel to corporates to undertake new projects, accelerating the pace of economic growth the benefits of which will be enjoyed nationwide. Literacy material of the sub-committee to focus on productive investment avenues.

3. ACTION REQUIRED TO BE TAKEN AND BY WHOM

The entire policy is sought to be implemented through existing institutional mechanism. The existing technical Group of Sub-Committee of FSDC on Financial Inclusion and Financial Literacy could be morphed into this. This group shall be responsible for Periodic monitoring and implementation of National Strategy for Financial Literacy and Education (NSFLE). Representative bodies of relevant regulators who are members of FSDC shall provide funds and manpower for implementation of National Strategy for financial literacy and education. The main role of the Sub-Committee shall be to create financial education material. The literacy material to be taught in schools at secondary (basic financial literacy) and senior secondary level (advanced level financial literacy material). The responsibility for rolling out and implementation of financial literacy guide as a separate paper in schools to be taken by MHRD. The technical Sub-Committee of FSDC on Financial Inclusion and Financial Literacy shall also create and maintain a website exclusively for financial education. The financial literacy mobile application and financial gaming development work shall also be managed by the sub-committee. All the regulators and ministries websites shall have a link to the NSFLE website. NSFLE website shall have the details of various education programmes conducted across the country, financial education material including brochures, FAQs, videos etc. The website should be a one stop repository for all financial education activities and material. The website should also be made available in various regional languages in addition to English.

A major thing to bear in mind is that free and easy access to financial information does not always warrant positive consumer behavior. Also, irrespective of a framework provided, human behavior is not always rational. Nevertheless, we do provide the frame. Behavioral economics suggests that knowledge does not always lead to gains. People do act in ways at odds with learnt knowledge. So Financial Literacy is a precursor to Financial

Education, which seeks "better behaviour". The commission spreads awareness and knowledge, i.e., literacy to start with. The "knowledge" we are referring to is data and information. No training is needed for basic skills once the infrastructure is in place. Farmers who know how to grow vegetables, using GM2 seeds and complex chemical fertilizers/ pesticides, have enough innate intelligence to figure out any but the soft skills. The quick adoption of the M-Payment³ methods in Nigeria is a good example; ATMs in urban India is another. The gaps will be in the "wisdom areas", which is where the Literacy Committee has to focus.

ABBREVIATIONS USED

FSDC: Financial Stability and Development Council is an apex-level body set up by the Government of India to strengthen and institutionalize the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.

GM- Genetically Modified.

M- Payment – Mobile Payment.

5. REFERENCES

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