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FINANCIAL LITERACY AND CONSUMER EDUCATION

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Financial Literacy and Consumer Education

Suman Rani Pannu

(M.com, M.Phil. NET) Dyal Singh College Karnal

Abstract – When people are aware about financial products and market they will be inclined towards financial products which will increase financial inclusion.. Final goal of any financial programme is to empower consumer. Government is aiming for more and more financial inclusion and that can be achieved by educating consumers by financial literacy programmes .The importance of financial education has improved in recent years due to the developments in financial markets as well as demographic, economic and policy changes. India is ranked number two in the list of highest financial literacy countries in the world. Moreover booming economy and new horizon of hopes makes this study really significant. The Reserve bank of India, which is the central bank, has been actively participating in the field of eradicating financial literacy in the country. In this context a project called “Project financial literacy “has already been implemented. Financial literacy in India is on the positive side now. The survey conducted by The Financial Express shows that India has made rapid progress in the field of financial education among the ten leading nations of the world.

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INTRODUCTION

Financial literacy is nothing but knowledge about finance. The importance of financial education has improved in recent years due to the developments in financial markets as well as demographic, economic and policy changes. More and more financial markets are becoming more sophisticated and new products are continuously offered. The consumers have now greater access towards a variety of credit and savings instruments provided by a range of entities from on line banks, brokerage firms and community based groups..This study is based on Indian conditions. According to a report by Financial Express, India is ranked number two in the list of highest financial literacy countries in the world. Moreover booming economy and new horizon of hopes makes this study really significant. In India financial literacy has assumed greater significance in recent years due to the complexity of financial markets. For the purpose of the study literature relating to the topic was constantly reviewed and data's examined. Conclusions, findings and recommendations are based on these.

FINANCIAL LITERACY A PREREQUISITE :-

Financial literacy is considered an important adjunct for the promotion of financial inclusions and ultimately financial stability. In India the need for financial literacy is getting greater because of the low level of literacy and large section of population which remains out of the formal financial set up. In this context the need of financial literacy has become broader and it acquires greater significance because it could be an important factor in the very access of such groups to finance.

India which have large sections of people who are resource poor and who operates on the margin. These groups are really vulnerable towards persistent downward financial pressures. Moreover with no established banking relationships, the poor sections are pushed towards expensive alternatives. Challenges in the areas of household management, could be accentuated by the lack of skills or knowledge that make well informed financial decisions. Financial literacy can help them prepare ahead of time for life needs as well as to deal with unexpected contingencies without assuming unnecessary debt. Indian economy is growing rapidly at an average rate of 8% per annum for the last 4 years in which major contribution is from service sector .Contribution of manufacturing and agriculture sector to Indian economy comes after service sector .It is a fact that long term investment is essential for any economy and household saving plays a key role in long term investment which ultimately results in capital formation..India has a saving rate of about 20%which needs to be increased . since majority of population lives in rural areas and most of them are unaware about finance and its management . So, there is a need of financial literacy in these areas where most part of savings come .In India a variety of steps has been taken by various agencies in the area of enhancing financial literacy, these steps includes:

INITIATIVES TAKEN BY RESERVE BANK OF INDIA :-

The Reserve bank of India, which is the central bank, has been actively participating in the field of eradicating financial literacy in the country. In this

context a project called "Project financial literacy" has already been implemented. The main objective of this project is to disseminate information regarding the central bank and general banking concepts to the various target groups including school and college going children, women, rural folk, rural and urban poor, defense personnel and senior citizens. Information is distributed to the target audience through presentations, pamphlets, brochures, films, websites etc. for doing this the Reserve bank has actively engaged other agencies like commercial banks, government machinery, NGO's, schools, college etc. It has launched a financial education site from November 2007 commemorating children's day. The site was mainly created to teach the basics of banking, finance and central banking to children in different age groups. The site also has other valuable information to other target groups like women, rural and urban poor, defense personnel and senior citizens. It contains films on security of currency notes and also has a games section. This is to familiarize school children with India's various currency notes. The other measures implemented by Reserve bank of India in this regard include:

The Reserve bank has asked the lead banks in each district to draw a road map for ensuring that all villages having a population of more than 2000 will have access to the financial services through a banking outlet and this outlet need not be a banking branch. Secondly all commercial banks inclusive of public sector banks, private banks, and foreign banks should come forward with their specific board approved plans for financial literacy by 2010 with an intention to roll out these plans during the next three years. In this context the reserve bank has refrained itself from deliberately imposing a uniform model on the banks, the Reserve bank wants each bank to build its own strategy in line with its business model and comparative advantage. This would ensure better ownership. In this regard the Reserve bank has also consulted the Indian banks association. The Reserve bank is also insisting to include the criteria of financial education in performance evaluation of all bank staff. Moreover the Reserve bank's outreach program aimed for Indian villages aims at connecting senior staff of the Reserve bank to the villages in India. Give the state that India has nearly six lakh villages; the Reserve bank staff has been able to visit all these villages as part of imparting financial education.

Credit counseling is a process in which the consumers are educated about how to avoid incurring debts that cannot be repaid. It normally involves negotiating with creditors to establish a debt management plan for the consumer. In India due to the recent transformations in the retail banking sector, the need for credit among the ordinary consumers' has increased drastically. There has been rapid growth in the areas of consumer loans, housing loans, credit cards, personal loans etc. This had led to the emergence of credit counseling in the country. In this scenario a few banks working in the public and private sector has taken initiative in this regard. The "ABHAY" counseling center in various

parts of the state of Maharashtra was started by the Bank.

of India. The "Disha trust" another organization initiated by the ICICI bank and "Grameen paramarsh kendras" started by the Bank of Baroda are already in operation. These counseling centers assist people on face to face basis as well as on telephone, email, or through letters. Consumers facing problems related to credit cards, personal loans, housing loans approach these centers to get efficient advice to solve their problems. Major features of such centers is that the services are provided free of cost and the centers are manned by retired bank personnel who are experts in this area. Financial inclusion means providing basic banking facility to most of population. People who are not having bank account or do not have access to credit can be termed as financial exclusion. According to RBI data 59% of adult population in urban areas has at least one bank a/c that means 41% population in urban areas does not have an a/c whereas only 40% in rural areas have at least one bank a/c that means 60% people in rural areas do not have even a bank a/c. When it comes to loan that is credit facility availed only 14% have accessed to credit in urban areas while 9.5% in rural areas have accessed credit facility. People who are financially excluded are poor like landless labor, migrants, marginal farmers, employees in unorganized sectors, slum dwellers etc. they are financially excluded because of several reasons like lack of awareness, socially deprived, illiteracy, reach of banking institutions, stringent formalities, etc.

INITIATIVES TAKEN BY SEBI FOR EMPOWERING INVESTORS:-

Securities exchange board of India (SEBI) which is regulatory body for securities market has been established to protect the interest of investors. SEBI is very active regulatory body for in terms of financial literacy. Recently SEBI is running a campaign called securities market awareness campaign (SMAC). Motto of campaign is "an educated investor is a protected investor". This campaign is launched in the year 2003 and the objective of this campaign is to disseminate message of "invest with knowledge". SEBI conducts various workshop across the country, till date it has organized more than 2188 workshop in more than 500 cities. SEBI conducts investors education and awareness programmes in which expert from financial market provide knowledge for investing wisely to investors. SEBI has prepared its own standard reading material and presentation material for workshop in English, Hindi and regional language. In part of educating investors SEBI officials also take active participation in programmes aired on all India radio. SEBI also uses television to promote its message for investors. SEBI uses print media to educate investors. It has prepared Do's and don'ts list for investors related to securities market. According to SEBI data over 700 advertisement related to investors education have been published in more than 48 different newspapers

,magazines in approximately 111 cities in English,Hindi and regional language. A website dedicated to investors has been prepared by SEBI at which all information has been given. SEBI has also prepared material for school and college students ,household especially middle class and retired peoples etc.in progammes aired on all india radio.Establismment of village knowledge centre (VKCs):it is an initiative by UBI empower local people in rural areas. It is small unit attached to rural branches of union bank.VKCs are equiped with computer with net facilities .These centres not only provide financial information but also information regarding crop pattern ,weather condition prevailing in particular area and moreover they also prmote the villager for sending their children in school.

OTHER MEASURES

Other than the Reserve bank and other commercial banks, various NGO's in the country are also entrusted with the task of spreading financial literacy in the country. Prominent among them is the NGO named 'Sanchayan' which is dedicated exclusively in spreading financial literacyand awareness among the youth and adults who come from low income background. For this the NGO conducts free workshops on topics ranging from the basics of banking, credit cards, and PAN cards. Moreover they also cover investment decisions in shares and mutual funds. The main objectives of these workshops is to enable these youth and adults to become aware and become part of mainstream banking and financial services industry. The main mission of 'Sanchayan' is to create a financial literate India. The NGO has been launching very useful programmes with this objective. The Financial literacy and counseling programme for urban poor like maids,rickshaw wallahs, auto drivers etc was the first of this kind. The organization has also tied up with the National stock exchange for introducing literacy programmes in stock market knowledge. It has also developed the financial literacy program for young adults named 'FUN' in increasing financial awareness among them. It has also helped many youths to open bank accounts in public sector commercial banks (Sanchayan annual report 2009-10). Another NGO named Citi India (A branch of the Citi group international) has been on the arena of spreading financial awareness among Indian masses. The group has launched a pilot program on women empowerment through financial literacy in participation with the SEWA (self-employed women's association) bank. This program was developed to teach the women how to employ the money they have borrowed and how to use the profits earned by them. The program aims to advice the women how to invest these funds in insurance or pension schemes.The Citi center of financial literacy a key department within the organization focuses on imparting training programs for the trainers of financial literacy and for the field workers. The Indian school of microfinance for women started in 2003 for empowering the lives of women is

also undertaking efforts in increasing financial literacy in the country. It has taken initiative to celebrate October 14 as financial literacy day every year. The institution through its 'Citi' center of financial literacy has formed a network of partner organizations named National alliance for financial literacy to take up financial literacy as a mass movement across the country.The national financial literary drive was launched in 2008 aimed to reach one million women in the year 2009. The event proved to be grand success. It is also engaged in knowledge sharing network on financial literacy at the national level. It is also proposed to set up coordinating centers at the state level as well as district level. Moreover the group is also organizing financial counseling centers, financial camps, portals and certified courses on the topic (Indian school of microfinance for women Annual report. 2008-09). CRY (child rights and you) is an NGO working for the underprivileged children of India. It partnered with the Citi group to promote economic empowerment in India during 2011(Citi India partners 12 NGOs, 2011). In India studies conducted by Ajay Tankha, Development consultant of Sa-dhan, a self-help group in regard to financial literacy has indicated that nearly 96% of the population across the country felt that they would not survive for more than one year if there is a loss of income. More than half of the population of the country prefers banks to keep their surplus. More than one third prefer to keep their surplus at home and only 5% keep their surplus at post office schemes.Higher income earners save up to 44% of their income whereas the bottom 20% borrows up to 33%. To meet ends, 40% of rural households borrow from local money lenders to meet important expenditures. These data clearly points out that Indian household do have the habit of making savings out of the household income but most of their current income is insufficient to meet their needs. Access to finance by the poor sections of the society living in the country depends on the degree of financial literacy available for them. For reduction of poverty and social; cohesion, such groups should be financially educated and brought to the mainstream financial climates. In a NABARD report published in 2008, data reveal that 45.9 million farmer households in the country do not have access to credit either from institutional or non-institutional sources. This represents around 51.4% out of the total percentage of households. Moreover despite the large and vast network of bank branches, only 27% of the total households in the rural sector have access to bank financial schemes. Rural households not accessing credit from formal sources as a proportion of total households' accounts for a whopping 95.91%, 81.26% and 77.59% in the north, north eastern and central regions of the country. The report strictly highlighted the importance of SHG's in the area of improving financial literacy which could overcome this adverse situation. In this regard the SHG- bank financial link was proposed. This came to be known

as the SHG- bank linkage programme. This programme is now more than 18 years old (Report of the committee on financial inclusion, 2008).

CONCLUSIONS

Financial literacy in India is on the positive side now. The survey conducted by The Financial Express shows that India has made rapid progress in the field of financial education among the ten leading nations of the world. The country is now ranked second in the world with respect of financial literacy. The ING consumer resourcefulness survey states that the country has a financial literacy level of around 55% second behind the Japanese. A majority of Indian consumers have not only shown better skills in managing their financial budget but are also confident of facing any financial impediments in future as compared to citizens of other nine countries. All these developments can be attributed as a result of initiatives taken by the Reserve bank of India, commercial banks, NGO's, SHG's and the government. But the negative side of these is that nearly 98% of Indian citizens still do not have a Demat account. The country where 48% of the population still lives on day to day earnings cannot dream of savings and life insurance. However these inequalities could be overcome if more and more enthusiastic and coordinated efforts are launched by the aforesaid agencies who are party to financial sector of the country. In this context, the following recommendations are worth notable to increase the financial literacy of the country. Support financial literacy programs and schemes to build up insights on valuable interventions, including new ground-breaking approaches, and to provide test cases for rigorous impact evaluations. Endorse the switch over of information on financial literacy between public and private sectors and across institutions such as worldwide donors, bilateral development agencies, NGOs, and financial institutions. Apply lessons from behavioral economics and social marketing to this topic so as to make the most of results and the skill of consumers to obtain information and then take action.

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