

Financial Literacy - A prerequisite for Financial Inclusion

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Financial Stability:



What is Inclusive Growth?



Inclusive Growth:

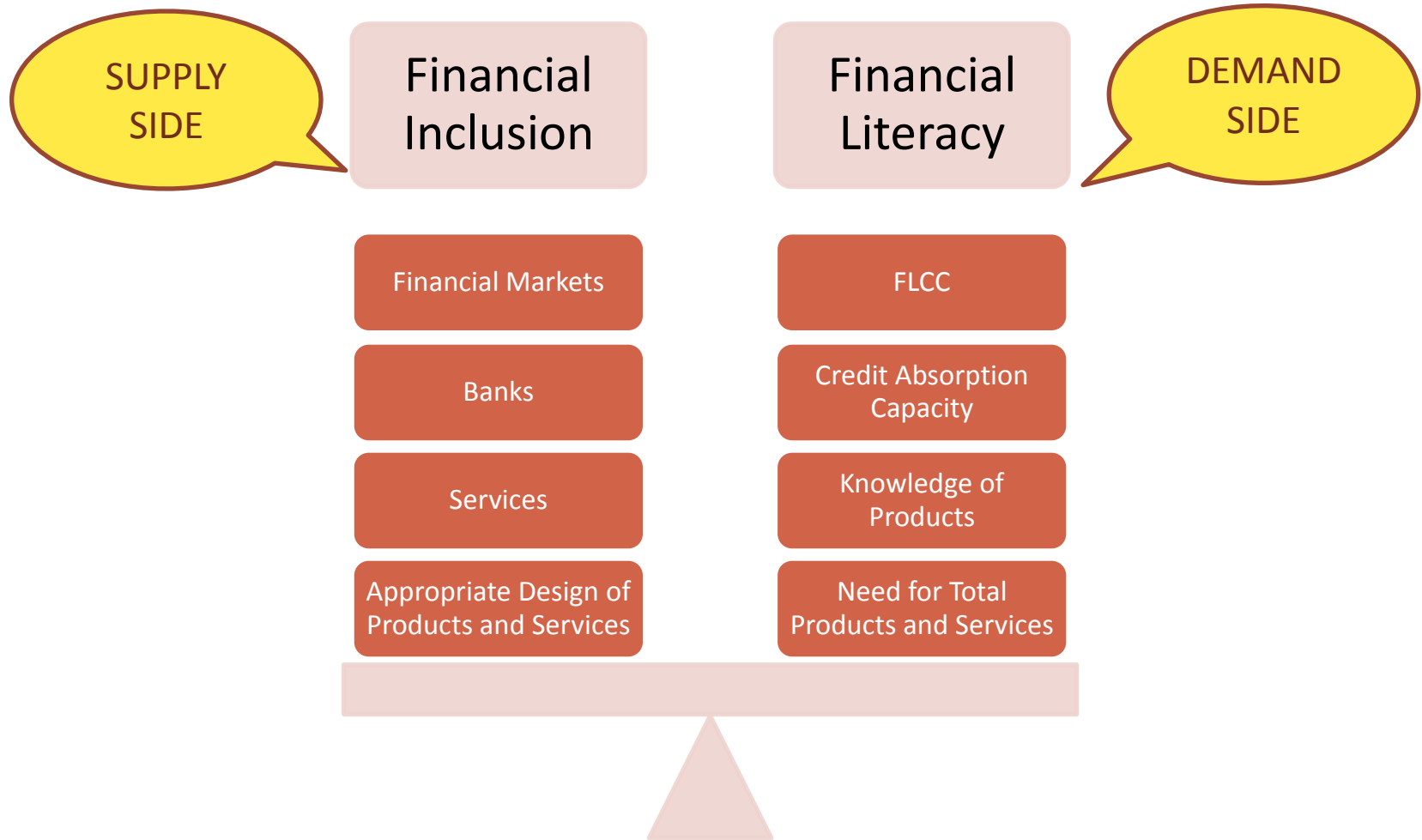
Inclusive growth as a strategy of economic development has received renewed attention in recent years owing to rising concerns that the benefits of economic growth have not been equitably shared.

Growth is inclusive when there is equality of economic opportunities.

Financial inclusion makes growth broad based and sustainable by progressively encompassing the hitherto excluded population.



Financial Inclusion and Financial Literacy



Financial Inclusion



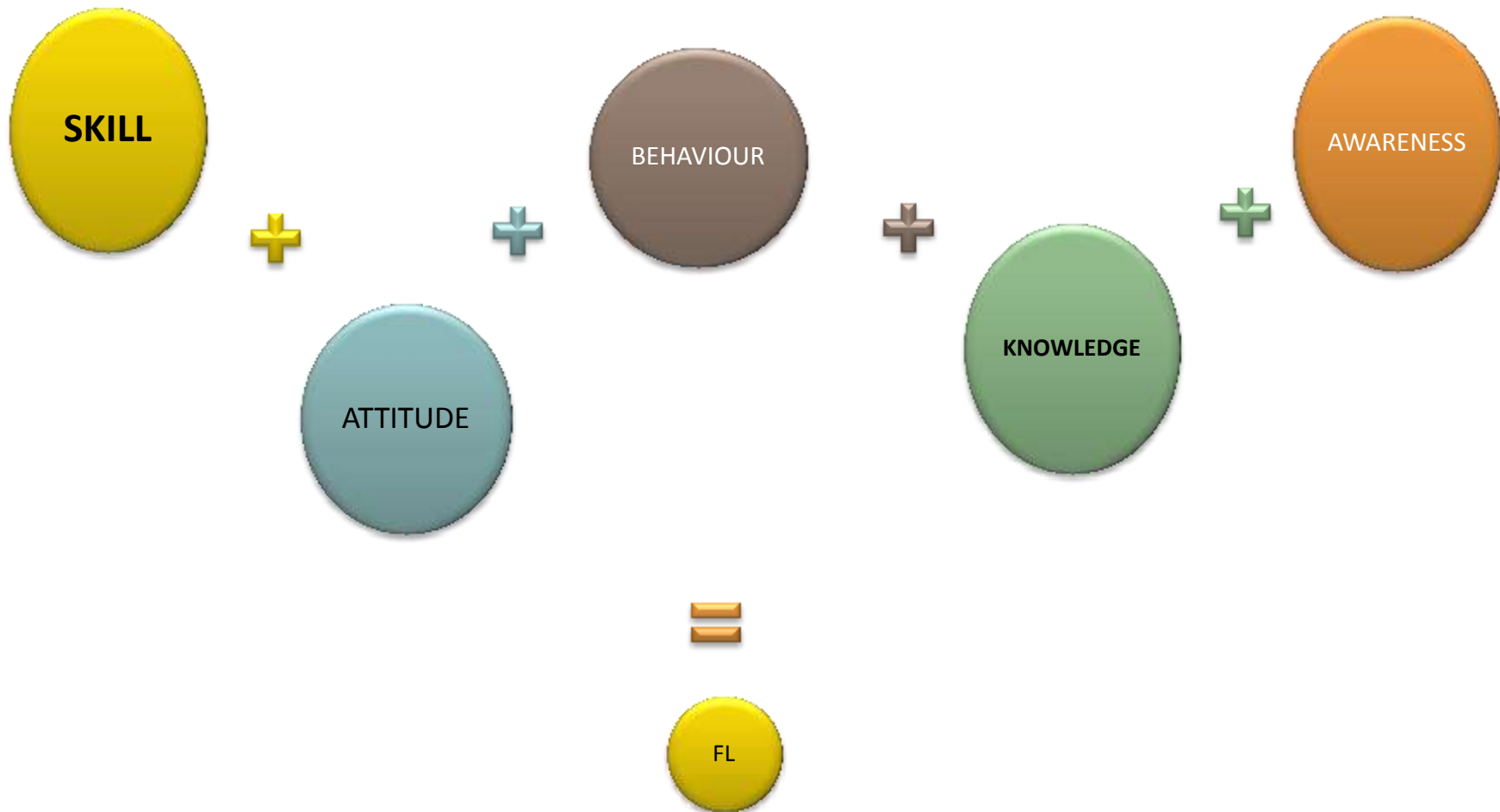
What is Financial Inclusion?

Financial inclusion broadly refers to the **process** of ensuring **access to appropriate financial products and services** needed by all sections of the society in general, and **vulnerable groups** such as the weaker sections and low income groups in particular, at an **affordable cost**, in a **fair and transparent manner** by mainstream institutional players.



Financial Literacy





Financial Literacy:

- A combination of **S**kill, **A**wareness, **B**ehaviour, **K**nowledge and **A**ttitude necessary to make sound financial decisions and ultimately achieve individual financial well being
- The capacity to have familiarity with and understanding of financial market products, especially rewards and risks in order to make informed choices



Why is Financial Literacy important?

- It enables individuals to take effective action to improve overall well-being and avoid distress in financial matters
- It plays a vital role in the efficient allocation of household savings and the ability of individuals to meet their financial goals
- Raising financial literacy supports social inclusion, enhances the well being of the community, empowers the poor and increases their economic space

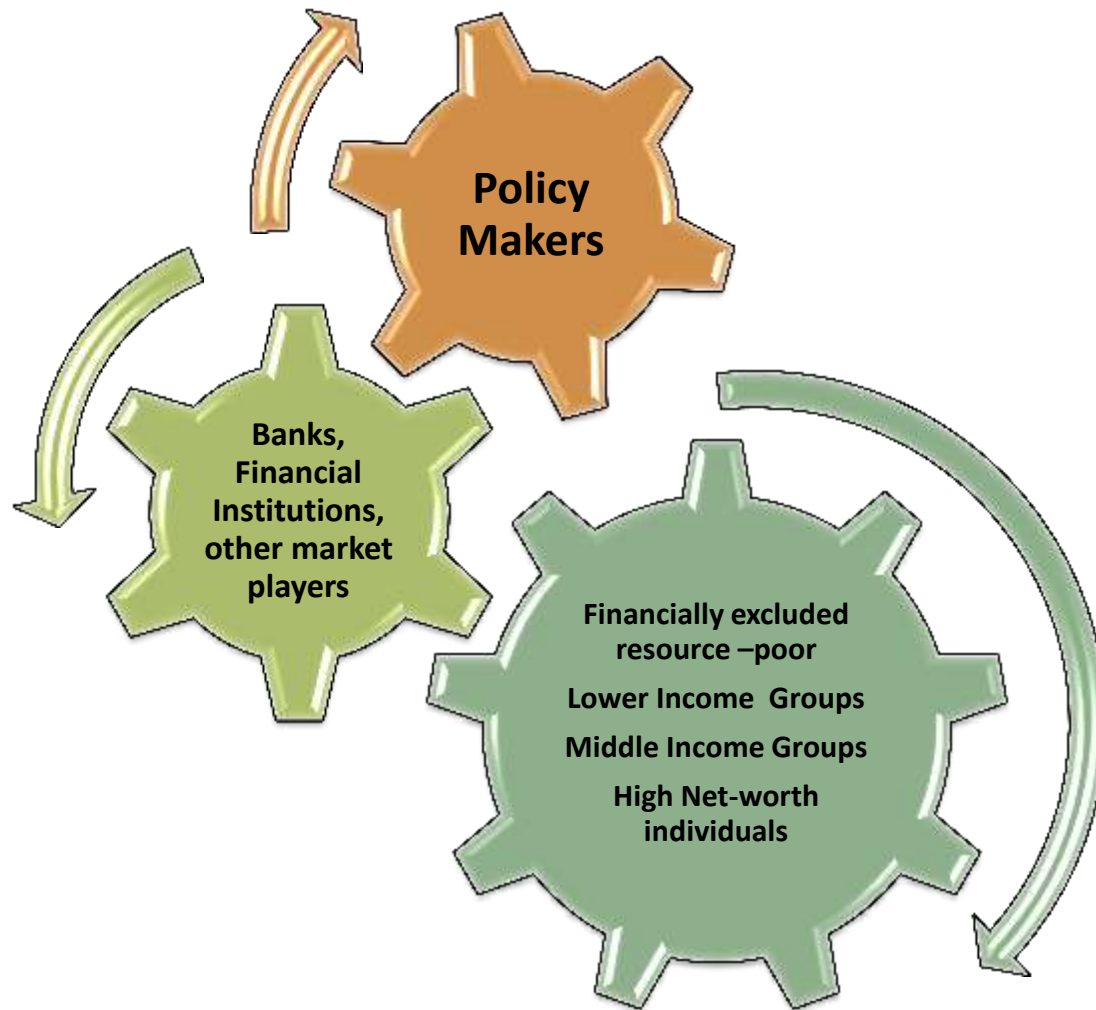


Why is Financial Literacy important?

- A financially literate person can link his need for a product or service with those available within the banking system
- The formal banking system will find a financially literate person easier to approach
- A financially literate person will seek information about available services to operationalize his financial decisions and hence access what is available
- Financial literacy builds capacities to make decisions and take responsibility for those decisions.



Who should be imparted Financial Literacy?



Who should be imparted Financial Literacy?

- FL has to be imparted to everyone in the economy viz., users and providers
- Users viz., the financially excluded resource-poor, the lower and middle income groups and high net worth individuals
- Banks, Financial institutions and other market players
- Policy makers



Financial Literacy Centres (FLCs):

- February 2009: RBI advised banks to set up FLCCs to provide free financial literacy, education and credit counseling
- June 2012: Banks have been advised to set up FLCs in more than 630 offices of the LDMs
- Further rural branches of Scheduled Commercial Banks including RRBs have also been advised to undertake financial literacy activities
- FLCs and rural branches are also required to conduct outdoor financial literacy camps with focus on financially excluded people at least once a month



Initiatives taken by RBI:



- Financial Literacy Guide

- contains operational guidelines that spell out the manner in which FL Camps should be conducted.
- It is a ready reckoner for trainers involved in FL and FI.

- Financial Diary

- prepared with the objective of enabling the target audience to keep a record of their income and expenses leading to better financial planning and understanding of how they spend.

- Set of 16 posters

- simple and appealing slogans which communicate the messages of money management, savings, borrowings and basic banking.

Objective of Financial Literacy Camps:

- To facilitate FI through provision of two essentials viz., literacy and easy access
- It should aim at imparting knowledge to enable financial planning, inculcate saving habits and improve the understanding of financial products leading to effective use of financial services by the common man
- It should help them plan ahead of time for their life cycle needs and deal with unexpected emergencies without resorting to debt



Conduct of Financial Literacy Camps:

- An annual calendar of locations for conduct of outdoor Camps should be prepared
- At every location programme to be conducted in three stages, to be spread over a period of three months comprising of three sessions of minimum two hours each + a visit to ensure timely delivery of cards
- Programme may be customized as per need
- Underlying objective should be to bring maximum number of participants into the banking fold



Conduct of Financial Literacy Camps:

First Session

- Awareness on financial concepts, personal finance & money management
- Advance publicity to be given about the camp
- Prepare a detailed list of participants (name, age, occupation etc.)
- Topics: financial planning, budgeting, savings, how to maintain financial diary etc
- Distribute financial diary and explain its use
- Announce date of second session and inform them that BC will be introduced during the 2nd session

Second Session

- Fortnight after holding 1st session
- Take attendance. Find out reasons for absence of participants
- Introduce the BC and give a demonstration of the working of the ICT device
- Check financial diary and explain difficulties if any
- Start enrolment for opening of accounts and advise them the approximate time needed for opening the accounts
- After 15 days of this session, branch officials should visit the village to ensure delivery of cards

Third Session

- 2 months after holding of second session
- Interact with villagers and BC, ask them if they had any other difficulties
- Review the usage of accounts to find out if there are any issues impeding the usage of accounts



- Financial literacy is a primary step for financial inclusion since introspection changes behaviour which in turn makes people seek and receive financial services and products.



Thank You

