HOW TO MAKE INDIA A FINANCIALLY LITERATE COUNTRY – STRATEGIES

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Financial literacy in India- challenges as opportunities

India is unique among nations. People speaking different languages, practising different religious faiths, consuming different kinds of foods and experiencing different climatic conditions share this vast land. Similarly, thousands of the richest in the world live beside millions of poor people, who live below poverty line-wherever we draw the line!It is always difficult for us to answer, if someone were to ask us a simple question-Is India a rich country or poor country? There is no doubt that India's GDP growth is good and that India is blessed with abundant natural resources and human capital. But the prosperity of the country is not equitably distributed among the people.

All stakeholders to the economic growth of the country- the Government of India, the banks, the regulators and the Non-Government Organizations are concerned with the financial literacy of the people. Financial exclusion and financial illiteracy will result in serious implications for the whole country.

With India becoming more vibrant and visible now, the nation has become the hub of many financial and economic activities. Huge FDI and FII investments, liberalization, privatization, globalization and consolidation processes have taken the centre-stage. India is at its financial and economic cross-roads.

Therefore it has become more important and more urgent now than ever, to make India a financially literate country.

Mere literacy does not necessarily generate financial literacy. By financial literacy we mean broadly basic money management by individuals. It means that people must be able to obtain, understand and evaluate information required to make decisions to secure their financial future as best as possible. Financial literacy involves a gamut of activities including Money management, Credit management, Debt management, risk management, investment and retirement planning Management.

We will address, in this paper, the strategies to make the different segments of our population financially literate.

Broadly we will discuss empowering the following segments with financial knowledge:

a. The poor and the downtrodden

b. The rural agricultural community

c. The youth – especially the Gen-next and children

d. The unorganized sector

e. Workers of the organized sector-Government and private sector

f. MSME sector

g. Women

h. The investors

i. The rich

j. Senior citizens

How to make the poor and the downtrodden financially literate

According to an RBI Survey, 21.67 crore people in rural India live below the poverty line.5.31 crore people in urban India live below poverty line. Poverty in India is more due to financial illiteracy than any other factor. The poor do not know how to save their hard-earned money and how to come above the poverty level. They are caught in the vicious cycle of usurious money lenders and become virtual bonded laborers. All stakeholders involved in the process of removal of financial illiteracy should take proactive measures for imparting financial literacy to this segment of population.

My suggestions:

- Opening bank account for each individual is the first and the most crucial step, in financial literacy initiatives for the poor.Banks should get themselves fully involved in making this big dream realized. They should view such opening of accounts of the poor, not just as a Social responsibility but as a viable business model. Of course, banks need to be assisted by other stakeholders-Government agencies such as the Panchayat, Block Development Offices, NGOs, people's representatives, ward/municipal members etc, in ensuring that every individual opens his account.

- All social benefits to these segments such as scholarship, pension, and subsidy should be routed only through these accounts. This will eliminate leakage of the monetary benefit.

- I strongly believe that these twin actions- opening of bank accounts of the poor and transferring of government money electronically to these accounts-are the beginning of financial literacy for such people.

- Beneficiaries of government sponsored schemes should be systematically identified and given financial counseling when banks give loans. There should be financial counseling sessions, wherein they should be taught basic financial accounting (at least single entry accounts-keeping) and financial discipline.

- Savings must be encouraged. Gram panchayats and Gram sabhas should conduct informal sessions to villagers and beneficiaries of government schemes on the importance of savings through formal financial systems.

- Financial literacy for the poor and vulnerable sections of the society includes micro life insurance, accident insurance and bank deposits such as small -value recurring deposits. Insurance companies-both life and non -life- should penetrate to the villages and enable the poor to insure their lives and their assets.

- The stakeholders such as Government departments/ NGOs can organize awareness programmes, skits, road-shows on the importance of savings and optimizing wealth, in rural areas and in agricultural belt.

- Among all the stakeholders, banks can play a great role in providing financial literacy. They must help in converting the physical assets of the rural household such as land, jewels, cash into financial assets and trigger economic activities among this sector.

	Strategy to be adopted	What it will achieve	Who will implement the strategy
1	All individuals and households to be given bank accounts	The beginning of financial literacy. People become part of the formal financial sector	Banks/NGOs and Government bodies/Business correspondents
2	All social benefits to be electronically credited to the accounts	Prevention of leakage of money	Government and banks
3	Government schemes to be implemented on mission-mode	BPL families will overcome poverty in stages	Government/banks/implementing agencies
4	Financial literacy awareness programmes	Overall financial knowledge will improve among the poor	All stakeholders, NGOs,
5	Teaching life insurance and health insurance	These two financial needs can be taught	Life insurance and non life insurance companies assisted by banks, through bancassurance model
6	Savings, investment ,money management etc.,	Basic financial knowledge	Business correspondents and Business facilitators appointed by banks

How to make the agricultural community financially literate

Agriculture is India's strength. Agriculture contributes 18% to the country's GDP. 60% of the total work-force is engaged in the agricultural activities. In allied agricultural activities also, India ranks high in the world. For example, India is the largest producer of fresh fruits, oil seeds, dry chillies, ginger, bajra, ragi etc.;it is the 6th largest coffee-producer and the second largest producer of cardamom, cashew and silk. Our nation is the 6th largest producer of marine and freshwater capture fisheries.

My suggestions:

Financial literacy for our agriculturists encompasses the following:

a) Water conservation methods – drip and sprinkler irrigation

b) Harnessing the solar power-reducing power costs

C) Innovative farm and non-farm practices

d) Money management, including credit management

Financial Literacy and Credit Counseling Centres: (FLCCC)

Many banks have taken pro-active steps to educate and empower the rural population, by giving them financial literacy and credit counseling, through their FLCCCs. Reserve bank of India has given broad guidelines on the running of such centres. We require a large number of such centres to cater to the entire rural population of the country. Ignorance and financial illiteracy lead the poor peopleinto the trap of vicious usurious money lenders.

Agricultural scientists are engaged in continuous R & D efforts on farming and non-farming methods. But these research findings do not reach the agriculturists. There should be ***"Lab to Land"*** transfer of farming and non farming innovative measures. This transfer will increase productivity and revenue for the farmer. Banks shall play the role of the facilitator bringing all stakeholders for agricultural and allied activities together- NABARD, KVIB, DIC, DRDA, Life insurers, National Horticulture Board

The ultimate financial literacy for the agriculturists is to empower the agriculturists and to make agricultural and allied agricultural activities commercially viable.

	Strategy	What it will result in	Who will implement the strategy
1	Innovative farm/non farm practices	Increased output and revenue for the farmer	NABARD, NHB, banks, Extension offices of the Government
2	Lab to Land transfer of new technology in agriculture	Optimum output with latest technology	Agri universities/scientists/Banks
3	Imparting financial literacy through FLCCC	Financial literacy will improve	Banks
4	Spreading financial literacy through school teachers and extension officers	Knowledge at the grassroots level will improve. Penetration of financial literacy	Governments –offices of Block development officers, Village panchayat

How to make the youth-the new generation- financially literate.

It is true that our youth have high educational qualifications and skills. Most of them earn good income. But they too lack financial literacy. In our schools and colleges we do not teach money management or the habit of savings. The present day youth would rather spend than save. They do not understand the implications of inflation. They follow the epicurean principle of Carpe diem (enjoy the day or seize the day). They need to be imparted financial literacy.

My suggestions:

	Strategy	**Who will implement**
1	In our schools and colleges, students should be given sessions on money management, the power of savings, the need to beat inflation, the power of compounding of the rupee and wealth creation through systematic investments.	Schools and colleges
2	When the youngsters join companies, they should be oriented towards savings and investment options and explained how these help them as individuals to enjoy the life in the present and how it will help them as they grow old.	Companies where youngsters join. These companies will draw help from investment consultants and wealth managers.
3	The Gen-next should be sensitized on the need for adequate life insurance, adequate health insurance, liquid cash to meet any exigencies, the need to invest a part of their surplus in debt instruments and a part in equity instruments	Life insurance companies, Non-life insurance companies and mutual fund houses, as part of their Corporate Social Responsibility (CSR)
4	Financial literacy of the Gen-next population is necessary as otherwise, there will be dissipation of their hard-earned money; and over the years they will regret the missed opportunities.	All stakeholders to the financial literacy campaign
5	"Start early, invest systematically and stay invested"- these three mantras should be inculcated among the youth.	All stakeholders to the financial literacy campaign
6	Subtle differences between simple interest and compound interest, the nuances of floating interest rates and fixed rates, the concept of Equated Monthly Instalments should be taught to the youngsters from the very young age	Schools and colleges. Banks should teach these simple accounting entries to their newly recruited staff members

Catch them young

I suggest that financial literacy should be a part of the curricular at the high school level, with a well-defined syllabus, text books, trained teaching staff and allocated sessions. The following subjects can be the broad framework of the curriculum:

a. Savings concept Vis-à-vis inflation
b. Investment
c. Simple interest and compound interest
d. Interest rate as a concept- Fixed rate and floating interest
e. Debt instruments and equity instruments
f. Different kinds of avenues for an individual to save and invest
g. What is risk in investment and how to mitigate it
h. Credit management
i. Wealth creation through systematic investment plan
j. Balancing spending and savings

Financial literacy for the unorganized sector

The unorganized sector constitutes a very big segment of the Indian population. A large number of people work as construction workers, contract labourers, migrant workers, household workers, a large number of service providers such as vegetable vendors, cobblers, flower sellers, road-side vendors etc.,

Financial literacy for such people is a challenging task. However, **all stakeholders to financial literacy propagation** need to address this segment of people.These segments of people need to be given literacy on micro life insurance, health insurance, accident insurance and savings instruments.

Financial literacy for the workers in the organized sector

The salaried people in all segments-low income group (LIG), middle income group (MIG) and high income group (HIG) require financial counseling and literacy. Most of these people get good salary but lack in financial planning. They should know how to manage the cash flow and how to create wealth for the long time. The benefits of systematic investment plan should be inculcated to them. They need to know the importance of adequate life insurance, adequate health insurance, and liquid funds for exigencies and long term plan for wealth creation.

Financial counseling to the MSME sector

MSME sector:

The Micro, Small and Medium Enterprises (MSME) sector is becoming the buzz-word in India. A strong GDP needs the robust growth of the manufacturing sector. MSME sector contributes to 45% of the total o9utput of the country. There are more than 26 million SME units in India. More than 50% of the labour force is employed in this sector. 40% of the total output of the country is contributed by SMEs.Today's small entrepreneur becomes tomorrow's industry leader.

They complement the large manufacturing companies. But these entrepreneurs lack financial discipline.

My suggestions:

Strategy for financial literacy	Who will implement
MSMEs need to be taught basic accounting- at least single entry book keeping (cash book concept)...	Banks, as part of their soft intervention
They should know there Government of India is taking many initiatives to help them, such as the MSMED Act and the formation of MSME Ministry at the Centre.	Ministry of MSMED and Government of India
Banks need to take proactive role in educating this sector. Soft interventions are required for this sector. Credit counseling, training, interface with the large corporate and formation of clusters of Manufacturing units are some of the soft interventions that banks can make to this sector.	Banks through soft intervention and hard intervention

Financial literacy will empower this sector and MSME sector will become more vibrant.

Financial literacy for women:

Women have always been the Great Spirit behind the renaissance of India. They are emotionally attached to their families, especially their children. They are more aware than the men, about the importance of savings. However, mere "savings" are not sufficient. They need to know how to create wealth for their children and for their own. Women can absorb and imbibe financial literacy faster than men. Therefore, products such as Public Provident Fund (PPF), National Savings Certificate (NSC), Recurring deposits (RD) of post offices and the banks should reach them.

Converting physical assets into financial assets

Indian women have a great attachment for gold jewels. They keep thisjewellery either at their homes or in bank lockers. But gold jewellery is a non performing asset. It does not generate any income. Women need to be given the financial literacy that they should convert these physical assets into financial assets. They can pledge their jewels with banks, avail themselves a loan, construct a house, set up a shop, set up a small manufacturing unit or engage themselves in some skilled activities to enhance their income.

Financial literacy for investors, specially those investing in share markets

Ironically, the group of people who are supposed to have sufficient financial literacy, but possess actually the least financial knowledge, are the investors. The world of investment is full of glittering shades; but investors fail to understand that all that glitters is not gold.

Investment, especially in stock markets, especially, requires knowledge, patience, time and considerable investible surplus. Most investors go by stray opinions and take emotional decisions. They also want to make quick money in a short time. They fail to understand that investing in stock markets is not gambling. These investors have to be given financial literacy on the basic tenets of stock market investing: They are:

1. We cannot time the market
2. Wealth is created over a long time
3. Fundamental strengths and correct valuations should decide stock0purchase
4. Markets, which have the power to give, have the power to take also.
5. Portfolio diversification and periodic review are vital
6. Markets will satisfy the need of the investor, but not his greed

Investment option – stock market or debt market - depends upon three basic questions which investors have to answer: a) what is your investible surplus? b) how long can you stay invested? and c) What are your financial goals?

Similarly, investors need to be given financial education on the skills required for going in for derivative products and commodity trading. The Stock exchanges, the wealth managers and financial consultants should take the responsibility of providing the much-needed financial literacy to this segment of society.

Investing in share markets and debt markets through the concept of mutual funds, invoking the mechanism of Systematic Investment Plan (SIP)- to invest in a disciplined way, Systematic Transfer Plan (STP) – to move money from less risky liquid funds to more risky Equity fund and Systematic Withdrawal Plan (SWP)- to book profits periodically, should be inculcated to all investors, who seek wealth creation over mid-term to long-term.

Financial literacy for the Rich and the HNI

Accumulating wealth is good and important but more important is the protection of the hard-earned wealth and maximize the wealth. In India, there are no sufficient number of and qualified wealth consultants. Hence, these rich people and HNIs invest recklessly and lose their wealth. Financial literacy for this segment should include sessions on giving back to society a part of their wealth. They can also invest in nurturing the fine arts and cultural activities. Such investment will enhance their social value.

Financial counseling for the Senior citizens

It is a fact is that senior citizens become victims of false companies and entities and lose life-time savings in chit companies and other mala-fide investment companies. Financial literacy needs to be imparted to the senior citizens too. These investors should invest in instruments that will take care of their retired life. Financial literacy of the senior citizens is a social obligation of all stakeholders towards the elderly.

Conclusion

India, as we discussed earlier, is at its financial and economic cross-roads. The nation is becoming the hub of financial activities. It is necessary for the country to become literate not only in the conventional senseof the ability to read and write but all segments of society should become fully financially literate. Financial literacy will empower the citizens and it will ensure that individuals create wealth both for themselves and for the country. MA

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