

Financial Literacy-A Review



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India is amidst an unprecedented growth in economy and finance. Poised to grow at rates of growth ranging from 6 to 8 percent in the next four decades, India is recognized as a leading player in global economy and finance. In this background it becomes imperative to equip the people with enough skills to derive benefits from the growth. Policy initiatives such as

financial inclusion are already been implemented to make distribution of gains from growth wider and dispersed.

In this process promoting financial literacy would be an important policy initiative. Countries in the mature world such as US, UK, Australia etc have well defined and implemented financial literacy programmes that are promoted across a wide spectrum of people and market practitioners.

In India scope exists for designing a national programme for promoting financial literacy that reaches the key constituents and stakeholders in Indian finance including, institutions, individuals, students and investors.

This paper presents a short outline of the programme that could have a national mandate with possible participations from the major institutions in policy, regulation and market practice.

Financial Literacy : Global Experience

In a recent report (June 2009) on financial education, Organization for Economic Cooperation and Development (OECD) observed "Financial literacy is a necessary condition for financial market efficiency. As such, it is only one part of an effective policy response to empowering consumers in the financial market place. It does not substitute for financial consumer protection and regulatory frameworks. In particular, the importance of "market conduct" supervision has been further exposed in the light of recent financial crisis, where uninformed consumers became easy targets for mis-selling and purchased credit products that were clearly inappropriate for them. While the lack of consumer education and awareness cannot be identified as the main cause of the crisis, it is widely agreed that it played a major role in aggravating its effects".

Financial literacy programmes are thus an important policy agenda for strengthening financial markets in a number of countries including the developed markets.

Promoting financial literacy has become an important aspect of policy on financial sector development and enabling individuals to participate in this process and derive greater benefits. In the United States, Department of Treasury has an Office of Financial Education and has set up a Financial Literacy and Education Commission to improve financial literacy and education with principle responsibilities of (1) encouraging government and public sector efforts to promote financial literacy (2) coordinating financial education efforts of federal government, including the identification and promotion of best practices (3) development of a national strategy to promote financial literacy and education among American consumers (4) the establishment of website to serve as a clearinghouse to provide a coordinated point of entry for information about federal financial literacy and education programmes, grants and other information and (5) the establishment of a hotline available to members of the public seeking information about issues pertaining to financial literacy and education.

First Accounts Programme in the United States is similar to financial inclusion programme in India that has a goal to move a maximum number of unbanked and moderate-income individuals to a 'banked' status.

A National Financial Literacy and Education Network of state and local governments is in operation. About 30 institutions are engaged in promoting financial literacy and education in the United States.

MyMoney.gov is the US Government's website dedicated to teaching all Americans the basics about financial education. Various other federal departments too have their own programmes such as **Excellence in Education** of the US Department of Education, that provides economic and financial literacy among all students in the kindergarten; **Assets for Independence** of the US Department of Health and Human Services that enables community based state, local and tribal government agencies to implement and apply demonstration based approach for giving low-income families help out of poverty; **Housing Counseling** of the Department of Housing and Urban Development; that provides grants to approved counseling agencies that in turn provide couples about financial literacy, home buying and how to avoid foreclosure etc, ; **Community Development Revolving Loans** of the National Credit Union Administration, that was established by the US Congress to support credit unions that service low income people. **HIP (History in your Pocket) Pocket Change**: a fun educational tool that generates interest in coins, the US Mint, and US finance; The **National Strategy for the Financial Literacy** (titled *Taking*

Ownership of the Future) has several aspects including; building public awareness of available resources: MyMoney.gov; toll free number to seek information and guidance, developing and implementing a pilot national public service multimedia campaign to enhance the state of financial literacy; developing tailored, targeted materials and dissemination strategies; tapping into public-private and private-public partnerships; and research and evaluation of financial education programmes.

Greater Washington Jumpstart Coalition is a collaborative effort by 50 individuals and organizations representing business, non-profit, education and government entities including the Securities and Exchange Commission of the United States, with a mission to coordinate and streamline the process of improving the personal financial literacy of school children and young adults in the Greater Washington area. It is an affiliate of the National Jumpstart Coalition for Personal Financial Literacy.

In 2003, **OECD**, established a project on “**Financial Education and Literacy**” in OECD and selected non-OECD countries, with the objective; to raise awareness of the importance of financial education in OECD and developing economies; to survey programmes and initiatives in this field and assess their effectiveness; and to develop policy recommendations and best practices in order to help governments worldwide, promote good financial literacy programmes. In November 2005, OECD has published the first major international study of financial education, “**Improving Financial Literacy: Analysis of Issues and Policies**”. In June 2005, the OECD Council approved a set of “**Recommendations on Principles and Good Practices for Financial Education and Awareness**” in an event organized in New Delhi, India.

An international study analysing financial literacy surveys in OECD countries revealed the following.

In Australia, 67 per cent of respondents indicated that they understood the concept of compound interest, yet when they were asked to solve a problem using the concept, only 28 per cent had a good level of understanding.

A British survey found that consumers do not actively seek out financial information. The information they do receive is acquired by chance, for example, by picking up a pamphlet at a bank or having a chance talk with a bank employee.

A Canadian survey found that respondents considered choosing the right investments to be more stressful than going to the dentist. Financial Literacy programmes in Canada consists of Government, Corporate, Non-profit and Academia. The Canadian government has taken several initiatives in an effort to promote financial literacy in the country. According to OECD, Canadian Bankers Association (CBA) and Financial Consumer Agency of Canada (FCAC) have taken initiatives to promote financial literacy specially targeting youth through websites, courses and holding conferences.

A survey of **Korean** high-school students showed that they had failing scores - that is, they answered fewer than 60 per cent of the questions correctly - on tests designed to measure their answers to choose and manage a credit card, their knowledge about saving and investing for retirement, and their awareness of risk and the importance of insuring against it.

A survey in the **US** found that four out of ten American workers are not saving for retirement.

A **G8 International Conference on Improving Financial Literacy** was held in Moscow on 29th November 2006, where in the broad consensus is arrived on the following:

1. Financial Literacy is crucially important for financial sector development and economic growth. Improving financial literacy for the poor, remote and marginalized individuals and households can be achieved through increasing the awareness and confidence of these groups of people
2. Current demographic change with its significant economic and social consequences has the potential to affect saving behaviour, capital accumulation, the structure of financial markets and instruments to assist in the management of retirement incomes. Other factors making financial education increasingly important are the complexity and number of financial products, rising life expectancy, changes in pension arrangements etc., Improving financial literacy therefore, may be one of the policy measures to manage the impact of these changes.
3. The coordination of efforts of Ministries of Finance, Education, Central Banks and special agencies is extremely important for establishing efficient national systems of financial education. The role of governments in promoting financial literacy and providing consumer protection is crucial and be developed in close relationships with other stakeholders, especially with private sector and financial institutions.
4. It is necessary to formulate an international methodology which will enable regular evaluation of the progress of financial literacy and the effectiveness of the existing efforts.

The **Financial Services Authority** of the United Kingdom (FSA) commissioned a comprehensive Financial Capability Survey to measure the financial capability of the UK population and to provide a baseline to measure future changes. The FSA endeavours to reach more than 10 million people over five years including 4 million employees in the workplace, 1.8 million children in 4000 of the 6000 schools in England, around 2 million young students in higher education, around 1 million young people not in training, education or employment, 1.5 million new and prospective parents and 4 million annual visits to the FSA website.

The Australian Government established a **National Consumer and Financial Literacy Taskforce in 2004**, which recommended the establishment of the Financial

Literacy Foundation in 2005. The task force also recognised the need for a social marketing campaign. The Australian Federal Government created a website "Understanding Money" in mid 2006. The website provides information services such as **Budget Planner**, an exercise that helps individuals to know how they earn and spend, **Financial Health Check Up**, to assess the financial health and **In the Spot Light** that explains news financial products.

Federal Reserve Board of the United States implements a number of financial education and literacy programmes targeting school children.

Strategies to spread financial literacy are gaining ground in several countries with a large number of federal and private institutions participating in a big way to devise effective ways of educating investors.

The recent crisis heightened the need for further stepping up of the financial education and its effectiveness across a wide spectrum of stakeholders. OECD lists the following major priorities

- Continue to increase awareness of financial education issues (via global events, the international gateway and International Network on Financial Education (INFE) activities and assist stakeholders with their strategies and initiatives. International Network on Financial Education is composed of financial education experts from 100 public authorities and over 50 OECD countries and non-member countries.
- Develop more international guidance and good practices in the area of financial education and particularly with respect to:
 - a. The lessons learned from the crisis regarding financial literacy and awareness
 - b. The role of financial intermediaries
 - c. Financial education at school
 - d. Programme evaluation and financial literacy measurement
 - e. Psychological and behavioral factors affecting financial decisions.
- Deepen its analysis of household's financial responsibility burden, and prepare a report on risk transfers to households and their impact in the context of a crisis.

FINANCIAL LITERACY IN INDIA

In India awareness on the need to step up financial literacy is growing sizeably though great scope exists for enhancing its reach and effectiveness. A few of the recent developments in this regard include;

Reserve Bank of India has undertaken the "**Project Financial Literacy**" with an objective to disseminate information on banking concepts and the functions of the central bank to various target groups, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens.

Reserve Bank of India has also created a link on its web site for the common person to give him/her the ease of access to financial information in English and Hindi, and several Indian regional languages. Reserve Bank of

India has launched a financial education site on November 14, 2007 commemorating the Children's Day. The site aims at teaching basics of banking, finance and central banking to children in different age groups.

Reserve Bank of India has asked both the private as well as public sector banks to set up more Financial Literacy and Credit Counselling Centers (FLCC) in every district and has suggested the lead banks to hold a public meeting every quarter in each district to address grievances of the bank customers.

Reserve Bank of India (RBI) has selected Karnataka to launch its first-ever Financial Literacy Programme to educate students in schools and colleges about financial markets as part of the Platinum Jubilee Year Celebrations of the bank which was established in 1935. Speaking on the occasion, Dr. D. Subba Rao, Governor, Reserve Bank of India noted "Our aim is that all students passing out of schools and colleges should have a minimum knowledge of financial sector,"

India has been a host to an OECD Conference on Financial Education in 2005 and a Financial Education Summit in December 2007 jointly hosted by Citibank-Financial Times and Pearson Foundation.

Exchange Industry in India has been an active proponent of financial literacy and investor awareness. Leading exchanges such as Bombay Stock Exchange, MCX Stock Exchange, National Stock Exchange, Multi Commodity Exchange, NCDEX have extensive financial literacy programmes targeting investors and other stakeholders on important benefits in equity, commodity, currency and fixed income markets. MCX- Stock Exchange, India's New Stock Exchange defined its business strategy on four major priorities and these are ; Information, Innovation, Education and Research.

Securities and Exchange Board of India has extensive investor awareness programme in the form of Securities Market Awareness Campaign under which nationwide programmes are conducted for investors explaining various aspects of the functioning of the securities markets.

The High-Level Co-ordination Committee on Financial and Capital Markets formed a sub group among others, into matters relating to financial literacy, uniform processes and standards in the financial and capital markets. The sub-group, named as the 'Joint Regulatory Committee for Promotion of Financial Literacy', is headed by D. Swarup, Chairman, Pension Fund Regulatory Development Authority with representatives from SEBI, IRDA and RBI.

The scope of investor education in India could extend to banking, securities markets, insurance and pension funds, since these segments are likely to be more integrated than ever in the future. Financial services comprising these market segments are emerging as major product lines that are offered by the intermediation as also bought by the investors and customers. More and more banks are looking for securities markets business and a large number of broking firms offer financial services from various segments of the financial

markets.

An independent investor education programme encompassing all market segments could present a broad based information dissemination that would enable the investors to take a balanced approach towards investment decisions based on proper understanding of risks and rewards in each of the products.

Financial literacy in India could address to the following major constituents.

Urban Middle Class: Higher income population looking for diversified investment solutions and strategies.

Rural Markets: Scope and significance of financial markets and instruments.

Rural Poor: Benefits and application of various programmes in financial inclusion

Academia: faculty and students on the developments in global and domestic financial markets.

Non Resident Indians: on emerging developments and opportunities in Indian financial markets.

Public Services and Policy: Officials of public administration including legislators/bureaucrats, officials posted in India missions outside.

A few of the useful initiatives in this regard could be:

- a. A national financial literacy and education programme funded by all the financial institutions in India.
- b. A task force to prepare the content and design of programmes targeting various constituents of Indian finance and devising effective processes and instruments for dissemination.
- c. A pilot programme to test and validate the scope of the programmes and their effectiveness
- d. Designing a financially self sustainable mechanism for furthering financial literacy programmes in the long term.
- e. Developing a nationwide network of specialists in delivering effective financial literacy programmes.
- f. Bringing in the support of the state governments for effective dissemination.
- g. Engaging academic institutions to devise special modules/courses for the students under the national financial literacy programme
- h. Designing customized programmes to meet special requirements of various state governments.
- i. Periodic evaluation on the implementation of the programme

India has a great opportunity for growth in financial markets. Given the extensive financial architecture in place consisting of market segments and wide range of institutions, great scope exists for expanding and enhancing the reach and access of financial literacy. India has witnessed sharp surge in the activity of all the major segments of financial markets in the last two decades and the momentum will continue in the next few decades as the country races towards achieving greater maturity and diversity. As markets become more mature and product proliferation and complexity increases,

adequate knowledge and awareness for investors and customers becomes important for sustainable investing. In this background, it is an imperative for the institutional framework in India to evolve an effective financial literacy programme aided by support from policy and regulation that addresses to the requirements of the diverse constituents of the financial system.

ANNEXURE

LIST OF FINANCIAL LITERACY PROGRAMMES IN VARIOUS COUNTRIES

Federal Reserve System, United States

In the United States in addition to major programmes that are designed to promote financial literacy, several other programmes are implemented in different states by the Fed system.

Personal Financial Education and Curricula and Compendium of Providers provides information on training materials and other resources available to the public

The **Learning Center and Money Museum** (Cleveland) which was opened in January 2006 features over 30 interactive exhibits and related educational programmes centered around the theme "what gives money value"

My Money (Richmond) is an educational package for elementary school students that includes a teacher's guide and student workbooks featuring lessons entitled "What is Money"

Monetary Policy: Part Art, Part Science is a DVD based lesson that focuses on the structure and functions of the Federal Reserve System, and its role in formulating monetary policy.

Extra Credit is a e-newsletter published twice a year, to help teachers looking for information, lesson plans and activities and ideas for teaching economics and personal finance to middle school and high schools students

Financial Education Day at the Fed, an annual event, teaches eighth-grade students about personal financial education.

Money Smart Week, an annual event, is Federal Reserve Bank of Chicago's premier programme for promoting the importance of financial and economic education to Chicago community.

Financial Education Research Center is a database of research on the impact of financial education programmes.

Power of Money Curriculum Package includes to lesson plans and a nine minute video about the Federal Reserve Bank of Chicago.

Making Sense of Money and Banking (St. Louis) is a one week, three-credit college course hosted by Federal Reserve Bank of ST Louis) in conjunction with the University of Missouri-St. Louis and Southern Illinois University.

Teach Children to Save Day is a national event developed by the American Bankers Association Education Foundation in cooperation with the Bank, the University of Missouri-St. Louis Center for Entrepreneurship and Economic Education and a number of metro area banks.

Your Paycheck is a programme that focuses on teenagers earning their first paychecks and facing challenges related to money, credit and financial responsibility.

Learn Before Your Leap is a series of brochures listing counseling agencies that provide advice on every step of the home-buying process.

Supply, Demand and Deadlines is an annual economics workshop for journalists, conducted by the Federal Reserve Bank of Minneapolis.

The **Workplace Financial Education Programme** encourages employers to offer financial education classes to employees

Building Wealth: A Beginner's Guide to Securing Your Financial Future is a publication that introduces individuals and families to the idea of developing a plan for building personal wealth.

Rx: Financial Health is a (Federal Reserve, Dallas) personal education workshop related to achieving financial health

Where Did My Money Go? Making Money, Spending It, and Keeping It is a workshop series of the Federal Reserve, Dallas that explains various facets of managing money.

Riding the Waves of the Global Economy, was a Federal Reserve, Dallas hosted economic summit that focuses on world economy and international issues with special emphasis on technology, financial markets, poverty and outsourcing.

There's a Lot to Learn About Money is a Federal Reserve, San Francisco's one hour personal finance session for high school students.

Country Wise Programmes/Institutions Engaged in Financial Literacy and Investor Education (Illustrative list)

General

International Forum for Investor Education

European Union

Dolceta (in 26 languages)

Australia

The Financial Literacy Foundation

Centrelink

Australian Securities and Investment Commission

Australian Investors Association

Australian Shareholders Association

Australian Stock Exchange

Investors Education Association

National Information Center on Retirement Investments

Proshare Investment Clubs.

Brazil

Comissiao de Valores obiliarios (CVM)

Canada

Financial Education for Young People

Canadian Securities Administrators

Ontario Securities Commission

Canada Foundation for Economic Education

YourMoney Network

Alberta Capital Markets Foundation

Council for Investor Education

Investor Education Fund

France

Institut pour l'Education Financiered u Public IEFP

My Retirement On-Line

Managing Your Personal Finances

Les Cles de la Banque (the clues of banking)

Autorite des marches financiers (AMF)

Ecole de Bourse

Federation Francaise des Clubs d'Investissements

Germany

Schulerbanking Project

Personal Economics

Deutsche Borse

Japan

Central Council for Financial Services Information

Japan Securities Dealers Association

Tokyo Stock Exchange

Financial Services Agency

Korea

Korea Securities Dealers Association

Korea Securities Training Institute

Korea Stock Exchange

Korea Banking Institute

Netherlands

CentiQ

New Zealand

Getting Your Finance Sorted

Poland

National Bank of Poland Economic Education Portal

Sweden

Dare to Shop

Stockholm Stock Exchange

Swedish Shareholders Association

Premium Pension Authority

Swedish Consumers' Banking and Finance Buraeu

United Kingdom

The AXA Experiment

FSA Financial Capability Tools

Support4 Learning

Financial Education Partnership

Scottish Center for Financial Education

Institute for Financial Services

Life Academy

Training for Profit
Citizens Advice
Money Advice Scotland
Now Let's Talk Money Campaign
Financial Literacy Resource Center
Money, Tax and benefits
Managing Your Money
Personal Finance Education Group

United States

US Department of the Treasury
CSREES's Financial Security Programme
National Council on Economic Education
American Association of Individual Investors
Investment Company Institute Education Foundation
Investor Protection Trust
National Association of Investors Corporation
National Endowment for Financial Education
FINRA/FINRA Foundation
New York Stock Exchange
SIFMA
Foundation for Investor Education
Alliance for Investor Education
Financial Education Websites of US Feds

World Bank

Money Matters : A Financial Literacy Training Programme
World Bank Family Network Programme "Become a Financial Guru"

Aspen Institute

The Initiative on Financial Security

Citibank

The Citigroup Financial Education Programme
University of Illinois
Working Woman's Guide to Financial Security

VISA

VISA Financial Literacy
VISA Practical Money Skills for Life

The Bond Market Foundation (US)

Tomorrow's Money
National Credit Union Administration
Financial Education Library
