

Financial Literacy: Opportunities and Challenges



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Background

Literacy in every sphere is a foundation on which a strong structure can be envisaged. It assumes significance when it relates to investments where there are host of risks attached to different types of instruments that facilitate investments. It still assumes greater significance particularly when the Government is laying focus and emphasis,

imbibing and spreading financial education and training in financial area. However, realizing the mammoth tasks and reaching the demographic spread in India, Mr. P. Chidambaram, the then Finance Minister, in his budget speech in February 2005 announced that the Securities and Exchange Board of India (SEBI) would establish an Institute to undertake securities market education and research. In pursuance of this mandate, SEBI has established the National Institute of Securities Markets (NISM) in Mumbai. NISM is established as a public trust under the Bombay Public Trusts Act, 1950. It is an autonomous body governed by its Board of Governors. An international Advisory Council provides strategic guidance to NISM.

In tandem with its mission, NISM and SEBI have taken up financial literacy initiatives with focus on (i) school children, (ii) college going students, (iii) home makers (iv) working executives, (v) middle income group and (vi) retired persons.

A modest beginning by NISM in relation to spreading of financial literacy at school levels is through a uniquely designed program called "PocketMoney". This program is delivered through 8 interactive sessions imparting knowledge and understanding about:

1. Basic financial concepts of compounding, time value of money etc.
2. Budgeting
3. Savings & Borrowing
4. Basics of banking
5. Introduction to securities markets, to name a few.

The program is delivered in three phases; (1) training of trainers – the school teachers are provided with a one day training and detailed instructional material to facilitate them to train the students in the class room environment, (2) students activity sessions – the trained teachers deliver 8 sessions, in interactive case-based learning mode, and (3) family activity sessions - students need to undertake exercises with their family members at home based on the concepts they learn in the class room. This program has so far covered around 3,500 students from 27 Schools in 3 regions.

NISM has also planned to launch a special website for Investors' education and awareness. This website will have more than 200 pages of content covering varied areas from Investing Basics and Investment Planning to Equities Markets and Mutual Funds. It will also cover comprehensive investor protection related information. The website is expected to be launched in the last quarter of year 2010.

Further to these initiatives undertaken by NISM, SEBI, in coordination with NISM, has also launched a 7-day full time All India Financial Education Resource Persons Training Program where a pool of resource persons is

on channelizing savings which are currently hovering around 35% into productive purposes through investments in various. To realize such a mammoth task and channelize investments particularly in financial instruments, what is key and critical is to imbibe clear and reasonable knowledge by imparting education and/or training in understanding nuances of financial instruments. Therefore, as a natural corollary, financial literacy gets its important place when it comes to investments.

Opportunities

1. Seeing the size of demography of population in India, while one could recognize the redeeming feature of India, having literate and young population, at the same time, as explained in the background, there is a huge gulf between literate and financial literate population particularly when we analyse from the statistics available in relation to the persons making investments in financial instruments; number of persons have remained in the range of 10-15 millions reflecting meager 1% of population. Further, as the policy of the Government, moves in the direction of allowing the public at large to reap the fruits of the growth in our economy, it is essential to undertake appropriate initiatives of providing apt platform and infrastructure.
2. Besides having a large literate population, India also has untapped sizeable pool of savings which could be diverted towards investments for productive purposes to fuel to the engine of Indian economy, which is growing at an accelerated rate exceeding 8% of GDP.

There have been many initiatives both by private sector and Government agencies, pursuing the objective of

being trained by industry experts, regulators and renowned academicians to impart training on key subjects and areas pertaining to Indian securities markets. The program has already been launched in the western region with around 35 resource persons put through a week long training in Mumbai. The same would be extended to Resource Persons in the other 3 regions.

The trainers are provided with specially designed courseware, including standard presentations, to be delivered to the identified categories of investors.

Challenges

1. Lack of awareness

- a. Normal tendency observed in case of investors making investments in financial instruments is to rely on hearsay and on 'expert tips', even if such investors are capable of exercising their independent understanding about critical aspects, something which is frequently being emphasized and highlighted through various initiatives by Government, regulators, exchanges, various associations representing investors' interests, media prints etc.
- b. There is large number of persons willing to make investments, but are not aware about what avenues of investments are possible.
- c. There is still one more category of persons who have made investments, but are not aware as to which are the right agencies whom they should approach in and where they could gather better understanding about various opportunities and risk associated with investments in different types of financial instruments.

2. Mindset/Impressionist view

Investments in Securities Markets amongst other financial instruments are prone to higher risks. Since such investments require thorough understanding about the imminent risks, it is absolutely necessary for those who prefer such investment avenues, to either have an independent ability to understand all those critical risks, and/or to refer to certain analytical reports being published by various firms, carrying out research on various securities, industries and sectors. It is also a historical fact that investments in securities markets in a long term horizon have proved to be providing better returns, compared to other avenues of investments. However, for investments, the caveats are -

- a. They are usually for long term.
- b. They are done after appropriate evaluation/analysis of securities/industries/sectors.
- c. They are based on ones capacity to absorb loss, if any.

3. Reach and presence in rural/semi-rural areas

The toughest challenge is to accomplish extensive reach and presence of professionally competent persons, who can provide an unbiased yet thorough

understanding about different financial instruments to the various categories of investors.

Another stumbling block is developing comprehensive educational material covering the pros and cons of investments in different kinds of financial instruments in English as well as the large number of regional languages prevalent in India (as India has many constitutionally recognized regional languages), so as to enable clear understanding of financial concepts across the strata of society, keeping in mind the specific customs/ethnic background of people in the respective region.

The Way Forward

1. While there are currently several initiatives in the areas of education and creating awareness at various regional levels, through the endeavors of Government, Regulators, NGO's, Investors' Associations, Stock Exchanges etc., there is still a long way before we can bridge the gap and tap the rural and semi-rural population into the fold, which constitute over 70% of the population. While there have been a fair amount of initiatives, to upgrade knowledge and awareness among different levels of literate population to start with, the task warrants for an apt solution which has built-in capacity to have wider reach, cost-effective and easy accessibility in terms of its implementation and execution.

2. While risk from the system and market are the matter of concerns for the regulators and stock exchanges, to effectively manage and contain the risk of investments, in any financial instruments, rests with the individual concerned. While regulatory requirements extensively address the disclosure aspects, what is essential to be evolved is to inculcate a culture among masses making and/or intending to make investments to probe about the risks involved in the investments in financial instruments, match such risks with one's own risk absorbing capacity and then take what is known as an "Informed Decision".

To cite an example: when we go to the market to buy any item, normally enquiry is made atleast with one or two vendors of identical products and after comparing the quality of the products and the price, a decision is taken which product is preferred, even if such product is low cost item of say Rs. 10/- to Rs.20/. However, when it comes to making investments running into thousands of rupees, such commercial prudence is largely lacking and instead what is chosen is to rely on someone's advice or tips, particularly in case of investments in securities markets. This habit or approach adopted by investors need to be changed through continual and conscious efforts as explained above.

3. Another very significant measure required is on the part of the regulators to ensure that they have swift mechanism in place to enforce regulation strictly and effectively whereby persons found guilty of indulging in wrongdoing are brought to book and subjected to

exemplary actions. This would instill enhanced level of confidence in investing public and also in the system as a whole, key to facilitate more investments in the future.
