Financial Literacy: Challenges Ahead

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Introduction

Financial literacy is the ability to understand finance. Financial education is increasingly important, not just for investors but also essential for the average family trying to decide how to balance its budget. Each citizen of the country needs to know how to manage his/her hard earned money which has several utilities. In the increasingly complex financial world, investors are not just choosing between interest rates on two different bank loans or savings plans, but are rather being offered a variety of complex financial instruments for borrowing and saving, with a large range of options. At the same time, the responsibility and risk for financial decisions that will have a major impact on an individual's future life needs to be understood by each citizen. For example, pensions are being shifted increasingly to workers and away from government and employers. Individuals will not be able to choose the right savings or investments for themselves, and may be at risk of fraud, if they are not financially literate. There is a need do become financially educated in order to deploy the heard earned savings wisely to facilitate smooth and happy living. Further, they will be more likely to save and to challenge financial service providers to develop products that truly respond to their needs. The increased savings of a financial literate person will have positive effects on both investment levels and economic growth of the country. Especially, in emerging economies where capital is a scarce commodity, financially educated consumers can help to ensure that the financial sector makes an effective contribution to real economic growth and poverty reduction.

Financial literacy can be defined as the ability to understand financial products and the awareness, knowledge and skills required to take effective and informed decisions relating to the management of money. It should not be confused with financial awareness as financial literacy is associated more with numerical skills and the ability to understand complicated products. It is a broader term that includes the ability to read, analyze, manage, and communicate about the personal financial conditions that affect material well-being.[1] It may also be defined "as the ability to make informed judgments and to take effective decisions regarding the use and management of money."[2] Financial awareness, on the other hand, is knowledge of the available market products, a simple understanding of how and which products can be utilized for one's own benefit. Knowledge about finance helps in increasing market efficiency as the financially literate market participants will be fully informed and will be in a position to take informed decisions. Also there is a difference between financial literacy and financial education. Financial education is a road to achieve the goal of financial literacy. The National Strategy for Financial Literacy, USA 2007 defined financial literacy and education as follows:

"Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for the lifetime of financial well-being whereas financial education is the process by which people improve their understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being."

Further, OECD defines financial education as the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.[3]

Why Financial Literacy

As stated earlier, increase in number and complexity of financial products necessitates for an investor to have required knowledge to assess these products in all and also as per one's requirement. Various products with different returns, maturities and fee structure require proper financial knowledge to understand them. Financial education has benefits for almost all categories of people. For young people, knowledge about how and where to invest will help in future planning. It provides much needed knowledge of budgeting and saving. For families, it can help in maintaining financial discipline so that required savings can be done at appropriate time in appropriate instruments.

Before liberalization and globalization, the individuals were not exposed to significant risks. The market is flooded with several complex instruments floated by several institutions. Earlier, there were few investment avenues as banks, government sponsored insurance companies etc. which guaranteed assured returns. The interest rates were fixed by government. Even the issue price of the equity instruments offered in the securities market was fixed by the government in some countries like India.

But after liberalization, slowly the risk is being transferred to individuals. Now there is a presence of private players in the market along with the government and thus, individuals are exposed to the risk attached with as no guaranteed returns, insolvency problems etc. And secondly with the increase in competition there is increase in the number of products in the market. Over a period of time, with the increase in life expectancy and per capita income, people also look for more and more investment avenues. Increase in the number of products, many of which are market linked, exposed the individuals to more risks.

For example, as on May 2009, the number of mutual fund schemes increased to 590 with 37 fund houses compared to only one Mutual fund house (UTI) earlier. There are 21 life insurance and 21 general insurance companies which offer various insurance covers. There are more than 170 banks and housing finance companies which include Government as well as private sector banks.

Understanding a variety of complex products requires appropriate skills at the individual level. One can lose entire money for lack of knowledge about the various investment avenues available. The gullible investor can be easily wooed by market players by promising lucrative returns, the way it had happened in the state of Gujarat recently where an homeopathic doctor promised more than 300 percent returns in a short period of time and finally broke the rocket.

Individuals are prompted to take more risks for want of more returns. Generally, stock markets on an average provide higher returns than bank deposits (see Table 1), there is a tendency to turn towards securities market at the booming times. For example, since 1990-91, the Indian stock market gave negative returns for 8 years and in the remaining 11 years significant positive returns. However, while looking after returns it is also very important for the investors to be aware about the risks involved in securities markets. A comparison can be made with the risk free returns of bank deposits. The bank deposit rates also recorded a low of 5.5 per cent and moved up to as high as 9.75 per cent in the recent period. This level of volatility in deposit rates also left savers with either gains or losses at different points of time. Ideally speaking one should diversify his portfolio of investments to achieve maximum returns within his risk horizon which may vary from person to person depending on his risk profile. Inadvertent level of risks may prove very costly in the future pay-offs of the investments. Also, financial decisions should be taken as per individual needs and preferences.

Table 1: Historical returns in Securities Market and Bank Deposits

Year	Securities Market Returns	Commercial Bank Deposit Rates		
		1 to 3 yrs.	Over 3 yrs. and upto 5 yrs.	Above 5 yrs.
1990-91	49.54	9.00-10.00	11.00	11.00
1991-92	266.88	12.00	13.00	13.00
1992-93	-46.78	11.00	11.00	11.00
1993-94	65.71	10.00	10.00	10.00
1994-95	-13.71	11.00	11.00	11.00
1995-96	3.24	12.00	13.00 +	13.00 +
1996-97	-0.17	11.00-12.00 +	12.00-13.00 +	12.50-13.00 +
1997-98	15.82	10.50 -11.00 +	11.50-12.00 +	11.50-12.00 +
1998-99	-3.92	9.00-11.00 +	10.50-11.50 +	10.50-11.50 +
1999-00	33.73	8.50-9.50 +	10.00-10.50 +	10.00-10.50 +
2000-01	-27.93	8.50-9.50 +	9.50-10.00 +	9.50-10.00 +
2001-02	-3.75	7.50-8.50 +	8.00-8.50 +	8.00-8.50 +
2002-03	-12.12	4.25-6.00 +	5.50-6.25 +	5.50-6.25 +
2003-04	83.38	4.00-5.25 +	5.25-5.50 +	5.25-5.50 +
2004-05	16.14	5.25-5.50 +	5.75-6.25 +	5.75-6.25 +
2005-06	73.73	6.00-6.50 +	6.25-7.00 +	6.25-7.00 +
2006-07	15.89	7.50-9.00 +	7.75-9.00 +	7.75-9.00 +
2007-08	19.68	8.25-8.75 +	7.50-9.00 +	7.50-9.00 +
2008-09	-37.90	9.50-10.00 + ^	8.75-9.75 + ^	8.75-9.75 + ^

+ : Refers to the deposit rates of 5 major public sector banks as at end-March
^ : Up to September 12, 2008.
Source: RBI

In general, knowledge about the working of markets and its products for all stakeholders will help smooth functioning and development of the market as well the economy. Without proper knowledge of managing money at the individual level, the gains from economic development will be dissipated. Basic knowledge about financial concepts will help in making proper choices and will help in development of the markets as well as the growth of the nation as well. According to OECD,[4]

'Financially educated consumers can also benefit the economy. By demanding products more responsive to their needs, they also encourage providers to develop new products and service, thus increasing competition in financial markets, innovation and improvement in quality. Financially educated consumers are also more likely to save and to save more than their less literate counterparts. The increase in savings associated with greater financial literacy should have positive effects both on investment levels and economic growth. In emerging economies, providing both information and training to consumers on the operation of markets and on the roles of market participants can help these countries make the most of their developing markets. In addition, financially educated consumers are in a better position to protect themselves on their own and to report possible misconducts by financial intermediaries to the authorities. Thus, they would facilitate supervisory activity and might in principle allow for lower levels of regulatory intervention. As a result, there would be reduced regulatory burden on firms.'

In the recent period, financial literacy has become an important issue world-wide and the following section discusses some of the international developments.

International Trends

Concept of financial literacy gathered momentum from the beginning of 21st century and is becoming more and more important not only in developing but developed countries as well. The level of financial literacy is not very high even in the developed countries. A survey conducted by OECD shows that in Japan, for instance, 71 per cent of adults surveyed have no knowledge about equities and bonds while in US and Korea high school students failed a test designed to measure students' ability to choose and manage a credit card or save for retirement.

OECD

The OECD's "Recommendation on Principles and Good Practices for Financial Education and Awareness" includes the following advice to governments:

- Governments and all concerned stakeholders should promote unbiased, fair and coordinated financial education.
- Financial education should start at school, for people to be educated as early as possible.
- Financial education should be part of the good governance of financial institutions, whose accountability and responsibility should be encouraged.
- Financial education should be clearly distinguished from commercial advice; codes of conduct for the staff of financial institutions should be developed.
- Financial institutions should be encouraged to check that clients read and understand information, especially when related to long-term commitments or financial services with potentially significant financial consequences: small print and abstruse documentation should be discouraged.
- Financial education programmes should focus particularly on important life-planning aspects, such as basic savings, debt, insurance or pensions.

Australia

Financial Literacy Foundation was established by Australian Government in June 2005. On July 01, 2008, the functions of the Foundation were transferred to the Australian Securities and Investments Commission (ASIC). The main objectives behind the establishment of the foundation were[5] :

- To give an opportunity to all the Australians to improve their understanding of finance and better manage their money;
- To provide a national focus for financial literacy issues and work in partnership with government, industry and community organisations to advance financial literacy in Australia
- To build the capacity of all Australians to better understand and manage financial risk and take advantage of increased competition and choice in Australia's finance sector
- To raise awareness of financial literacy and its benefits.

United Kingdom

In UK, government led programmes for financial literacy includes 'National Strategy for Financial Capability' which was created in 2005 and is sponsored by FSA. The target audiences for this programme are students, teachers, college students and staffs, universities and student money advisors. Another programme 'Pounds and Pence' sponsored by Bank of England is intended for teachers and 9-11 years old pupils. Civil society led programmes for financial education includes Financial Education, Personal Finance Education Group and Financial Education Services.

The Adult Financial Literacy Advisory Group (AdFLAG) was established in 2000 to make recommendations on improving financial literacy of adults. The AdFLAG report formed the basis of the development of the Adult Financial Capability Framework by the Financial Services Authority (FSA) and the Basic Skills Agency (BSA).

United States

Almost all the regulatory bodies are involved in some way or the other to provide financial education to the citizens of USA. An important programme aiming towards achieving financial literacy is 'Financial Literacy Education Commission' sponsored by US Treasury Office of Financial Education. The target audiences of this programme are financial education providers, schools and vulnerable groups through websites, technical assistance centers etc.

Federal Reserve Education programme is sponsored by US Federal Reserve and covers Consumers, teachers, students, general public. In addition there are programmes as Financial Literacy Training sponsored by World Bank and Financial Education Program run by U.S. President's Advisory Council on Financial Literacy. Apart from the Government led programmes there are various society run programmes/projects to improve financial literacy.

New Zealand

The financial education efforts in New Zealand have concentrated on retirement planning and getting individuals to be better prepared for their non earning years. One of the initial moves was in 1993 when the Todd Task Force was set up to look into the issue of whether the country needed a financial education effort. The task force recommended that a Retirement Commission should be established. In 2004, The Retirement Commission and ANZ launched New Zealand's second adult financial literacy survey. Kiwisaver62 is a savings initiative to get citizens financially more aware of the need for retirement planning.

Canada

Canada takes the route of prudential regulation that is complemented by financial education. James M. Flaherty, Canada's Minister of Finance stated in the 2008 OECD-US Treasury International Conference on Financial Education Report: "Just as our strong economic fundamentals, balanced budgets and tax relief have helped us deal with global challenges, so too have the traditional strengths of our financial system." It is a system that conducts statutory five year reviews of financial institution legislation. Canada is working on improving financial literacy of citizens by building on the Financial Consumer Agency of Canada, which was set up in 2001 to ensure that financial institutions adhere to consumer protection policies. The agency develops educational material and conducts various activities to educate consumers that can be found on its website.

Financial Landscape in India

India has a high saving rate but only a small portion of it is in the form of financial instruments (see Table 2). The share of financial savings has moved up from 11.9 percent of GDP at the beginning of 21st Century to a level of 15.6 percent of GDP in 2007-08. Further, the financial savings are mainly in sectors which are termed as secure and risk averse like banks and insurance funds, where 56.5 percent of financial savings are parked in 2007-08 followed by 17.5 percent in insurance funds and 8.2 percent in provident and pension funds. However, only 10.5 percent of the financial savings are parked in shares and debentures. Based on the All India Debt and Investment Survey, it was observed by Rangarajan Committee on Financial Inclusion that 111.5 million households had no access to formal credit. Only 60 per cent of urban households and 40 per cent of the rural households have a bank account. Those among the earning population who utilizes formal financial services, majority prefers to keep their savings at home.

Though Indian securities market is one of the efficient and vibrant markets of the world still a very small proportion of the total financial savings is channeled into them. Demat accounts may be taken as a proxy to investment in securities market. In a population of more than a 100 crore, there are only 92,31,492 accounts with NSDL and 56,18,673 accounts with CDSL as on May 30, 2009. Investments made in the securities market are mainly on the advice of some near and dear and people do not put efforts to understand the risks involved in such investments. The investor understanding of the securities markets functioning and economic purpose of its products is very limited and there is a tremendous potential for realizing higher returns subject to making a balanced portfolio investment.

Another indicator of poor financial literacy can be attitude towards insurance products. People are averse to invest in any product in which there are no returns available in the near future. Therefore, most of the products offered by life insurance designed as investment products with in-built risk components. India's insurance market lags behind other economies in the baseline measure of insurance penetration. At only 3.1 percent, India is well behind the 12.5 percent for the UK, 10.5 percent for Japan, 10.3 percent for Korea and 9.2 percent for the US. Penetration of insurance is abysmally low with insurance premium at about 3 percent of GDP against about 8 percent global average.

Table 2: Historical Financial Savings and share of its Components

Item	Percentage of Financial Savings									Financial Savings as %age of GDP at current market prices
	Currency	Deposits		Share and Debentures	Claims on Government	Investment in Government securities	Investment in Small Savings, etc.	Insurance Funds	Provident and Pension Funds	
		Total Deposits	Deposits With Banks							
2007-08 #	10.9	58.5	55.3	10.5	-3.7	-2	-1.7	17.5	8.2	15.8
2006-07 (P)	8.6	55.3	54.3	6.8	5.3	0.2	5.1	14.9	9.2	16.5
2005-06 (P)	8.7	47.1	46.2	4.9	14.6	2.4	12.2	14	10.5	16.7
2004-05P	8.5	37.2	38.5	1.1	24.5	4.9	19.6	15.7	13.0	13.9
2003-04	10.5	41.6	38.7	0.1	20.2	4.7	15.5	13.5	14.1	14.0
2002-03	8.9	40.9	35.5	1.7	17.4	2.5	14.9	16.1	15	13.1
2001-02	9.7	39.4	35.3	2.7	17.9	5.8	12.1	14.2	16.1	12.7
2000-01	6.3	41	32.5	4.1	15.7	1.7	14	13.6	19.3	11.9
1999-00	8.8	36.3	30.8	7.7	12.3	0.9	11.3	12.1	22.6	12.2
1998-99	10.5	36.8	33.7	3.4	13.6	0.7	13	11.3	22.4	11.9
1997-98	7.4	46.6	37.8	2.9	12.9	1.6	11.3	11.3	16.6	11.3
1996-97	8.6	46.1	25.7	6.6	7.4	0.4	7	10.2	19.2	11.6
1995-96	13.3	42.5	26.3	7.3	7.7	0.4	7.4	11.2	16	10.5
1994-95	10.9	45.5	35.3	11.9	9.1	0.1	9	7.6	14.7	14.4
1993-94	12.2	42.6	27.9	13.5	6.3	0.4	5.9	6.7	16.7	12.6

#: preliminary, P: Provisional
Source: RBI

Importance of financially literate population is well recognized by India also. Several initiatives have been made by various institutions including government, NGOs, Self Regulatory Organisations etc. to impart financial education. Following paragraphs present the financial education initiatives taken-up by various institutions.

Initiatives to Improve Financial Literacy in India

Financial literacy is the need of hour in the present market oriented economic scenario and more specifically it is a social good. The investment required for financial literacy will not come from private sector since there are no tangible benefits for them. Therefore, State needs to come forward to disseminate financial literacy to make its citizens more empowered. In this direction, several initiatives took place from the beginning of 21st Century. The major developments in this direction by Government Institutions, Regulatory organizations are presented in the following paragraphs:

Ministry of Corporate Affairs

Investor Education and Protection Fund (IEPF) has been setup during 2001 to promote investors' awareness and to protect the interest of investors. As per the IEPF Rules 2001, activities stipulated include, education programmes through media, organizing seminars and symposia, proposals for registration of voluntary associations or institutions or other organizations engaged in investor education and protection activities, proposals for projects for investors' education and protection including research activities and proposals for financing such projects and coordinating with institutions engaged in investor education, awareness and protection activities.

The activities undertaken by IEPF till date include educating and creating awareness among investors through voluntary associations or organizations registered under IEPF (69 associations have been registered so far), educating investors through media, conducting panel discussions on Doordarshan (Delhi, Mumbai, Kolkata, Chennai and Ahmedabad), telecasting of video spots on Doordarshan and other private TV channels, giving print advertisement in national as well as regional newspapers. All these programmes have been undertaken in Hindi, English and other regional languages. Further, organization of seminars and workshops through associations registered under IEPF also took place. Research projects pertaining to investor education and awareness were sponsored. IEPF also coordinating with institutions engaged in investor education, awareness like, Indian Institute of Capital Markets (IICM) and also conducts "Training of Trainers" programme for accelerated reach to gullible investors.

A website is also launched as an information providing platform to promote awareness. There are two online resources offered by the website are –

1. 'watchoutinvestors.com" to prevent already indicted unscrupulous entities or individuals from harming capital market investors.
2. "Investor Helpline" is an ex-post complaint mechanism to assist investors, free of charge, in redressal of their grievances.

Reserve Bank of India

Project 'Financial Literacy' has been launched by Reserve Bank of India in 2007 to empower a retail bank customer. It adopted a two pronged approach: basic level- for those who are not a part of banking system and a higher level for existing bank customers. The project was started with children and young adults further divided into age groups of 8 to 12 and 12 to 16. The aim of the project is to disseminate information pertaining to Central bank and general banking concepts to various target groups, including school and college going children, women, rural and urban poor, defence personnel and senior citizens. RBI is also encouraging academic institutions to launch courses on financial markets. The Reserve Bank has created a link on its web site to give access to financial information in both English and Hindi, besides 12 Indian regional languages. They had also launched a comic story on their website explaining the functions of RBI and banks. RBI has begun a summer trainee programme where 50 students visit the RBI over two visits to see the operations from the inside, including a visit to the clearing house.

Young Scholars Award was initiated in 2007 where a certain number of students are chosen through a competitive exam to work within RBI for two to three months and become its ambassadors after that. Most scholars are given financial education projects during their stint with the RBI.

Securities and Exchange Board of India

SEBI has taken various important initiatives to impart financial education for the stakeholders of securities market by launching national level Securities Market Awareness Campaign on January 17, 2003. The motto of the campaign is 'An Educated Investor is a Protected Investor' and the multi-pronged approach is aimed at spreading its message of 'Invest with Knowledge'. Nation-wide various workshops were conducted to reach out common investors. More than 3,000 investor education workshops, some in local languages, were conducted on a pro bono basis. Women investors, defence personnel and other special needs groups have also participated in these workshops. SEBI has partnered with stock exchanges, intermediaries, investors' associations, industry associations like the Association of Mutual Funds in India (AMFI), and undergraduate and management colleges for conducting these workshops. Various educational materials are prepared for distribution to individuals attending workshops.

The Do's and Don'ts relating to securities market are published along with other educative materials in English, Hindi and regional languages. A dedicated investor education website 'www.investor.sebi.gov.in' was launched for providing investors the basic knowledge about markets and market participants. Mass media communication through television, radio and newspapers has been used in this campaign.

National Institute of Securities Market (NISM) which is an initiative of SEBI has also established a 'School for Securities Education' (SFSE) to provide professionals to serve capital markets. NISM is planning to start a pilot project to impart financial education in schools and setup an investor education website. Presently, NISM conducts investor workshops to have a face to face interaction with investors.

In addition to above, efforts to improve financial literacy have also been made by Insurance Regulatory and Development Authority, PFRDA, and various other Non-government Organisations.

Challenges Ahead

Financial literacy mission in a country like India is a herculean task. A beginning had been made however; there is a need to accelerate the penetration levels to reach a large segment of population in order to secure their hard earned money. There is a requirement to have a coordinated effort by public-private institutions in achieving higher level of literacy that will be beneficial for the economy as a whole. Information about all available financial products/ instruments along with risks associated with such products needs to be made public. Further, any investment opportunities disseminated to public at large, needs to be reviewed by an appropriate authority. Events like Dr. Ashok Jadeja's financial fraud further demands an urgent need for educating large segment of the population whose savings should have accelerated economic growth of India without falling prey to fraudsters.

It requires significant efforts by one and all to communicate with the general public and explaining them in detail about the basics of managing their hard earned money. In a vast country like us where more than 60 per cent of the population still lives in agriculture sector and it is necessary to educate them on the benefits of understanding financial literacy in order to manage their money more fruitfully. Financial literacy is not only related to the securities market but also to overall financial system that includes banking, insurance, pension sectors besides several investment opportunities. Managing one's finance through proper use of banking system i.e. saving money through the use of appropriate type of account, availing loan facilities provided by banks, ability to compare interest rates etc. can bring a big impact on their well being besides higher economic growth. It is also very important to make them understand promises of any abnormal returns by fraudsters by running ponzi schemes. Anything abnormal needs to be seen with a suspicion since there is nothing like abnormal which will be possible on an average. Thus, there is a need to make investors aware of the basics of managing their financial resources in a dynamic and vibrant market and the approaches to reach them are elaborated in the following steps:

1. Financial Education a part of School Curriculum

Young India needs to empower its children at an early age to understand the utility of money and its various usages. Today, a little of finance is taught to students at the school level and there is a need to impart knowledge of handling money, savings and proper investment to all the students starting from secondary education. They should be well aware of various avenues available for savings and should be able to compare interest rates/ returns prevailing. It is difficult to understand these concepts theoretically therefore at the school level banking facilities can be initiated. These banking activities may include opening a savings bank account, fixed deposits, besides explaining the facility of providing loan to needy students for their educational expenses. The risks and returns inherent in various available instruments need to be explained in manner that could be easily understood by the young school children. In order to encourage higher participation, surprise questions may be asked and suitably rewarded children with gifts.

2. Financial Education at the College Level

Financial education may be provided by establishing small credit societies. Further, benefits of savings/current account, fixed deposits and various loans provided by the banks can also be explained to the students. In the securities market, a simulated trading demonstration of investing in securities market can be explained along with functioning of the securities markets can also be presented. These efforts should not only concentrate towards economics or finance students but also students of all subjects. They also need to be educated about the importance of insurance products as a risk reduction instruments and provident funds as a security in old age. Attending a financial education workshop may be made mandatory for all students and educational curriculum may be designed to give small weightage for attending such workshops. To make the programs more interesting to participants, surprise quiz may be conducted and winners can be rewarded with gifts. Historical developments in financial sector along with the contribution of financial sector growth in the economic development of a nation can be highlighted.

3. Training the Trainers

Creating a pool of trainers across the country will result into easy reach to citizens of the country at a minimal cost. Besides the local trainers will be able to communicate to local languages and that will make a person more comfortable in seeking clarifications on the problems faced by them in handling their financial requirements. Especially, the trainers can be teachers in local school or colleges who would be significant talent pool for such activities. They can be offered honorarium for the lectures delivered by them and encouraging local NGO to co-ordinate such programs will go a long way to increase the financial literacy among the common citizen besides they would be in a position to guide young students who are studying at their schools with knowledge of financial literacy.

4. Financial Education to Households

This group needs be targeted with workshops during weekends along with some social activities to encourage higher participation. The presentation also needs to be mainly consisting of visual and past cases of frauds where gullible investors like them will be targeted. There is no free lunch in the market and any abnormal returns needs to be looked at suspicion since such returns are in general not possible from the market consistently for any individual. Importance of explaining the consequence of not following dos and don't may be considered for better reach. Households are the soft target for fraudsters and they need to be altered on not rely on unsolicited advice of any person. It is important to make them understand the risk factors inherent in various financial instruments and how to balance a portfolio with diversified financial instruments that will meet their money requirements at different points of time to meet their family obligations.

5. Joint Workshops along with Investors Associations/Stock Exchanges/Educational Institutions

Investor Associations, Stock Exchanges and Educational Institutions are closer to stakeholders of securities market and it will be beneficial to organize 3 to 4 hours workshops to all categories of stakeholders around the country. The workshops should elaborate the practical implications of 'Dos and Don'ts' already popularized by the regulator and stock exchanges. Presentations may also include events like scams, fraudulent offers, specific cases of price manipulation etc. and needs to be vigilant in all their financial transactions. The purpose of understanding any documents including KYC must be explained with examples of consequences of unknown contents of such documents.

6. Educating Financial Journalists and Media Communication

Financial journalist's views have wider reach to public and educating them about the benefits and functioning of the markets will play significant impact on the market. Financial journalists may also be encouraged to write regular columns on the developments of the market and they may be provided with inputs by the regulators. The workshops for the journalists may be organized all over the country and presentations may also be encouraged in regional languages in order to reach the public more efficiently.

Daily newspapers are published in all regional languages besides Hindi and English and this mode of communication needs to be utilized to fuller extent by having regular columns on basics of financial education. Besides, the columns should encourage question and answers section in order to have wider participation of the public. Television has become an household product and efforts needs to be made to produce acceptable mode of programmes that will communicate the need for informed financial decision making for the better of their family life. Moreover, there could be live question and answer programmes on various channels in order to instill confidence on the existing regulatory framework.

Concluding Remarks

Financial education is important; it is only one pillar of an adequate financial policy to improve financial literacy and access to financial services. Financial education should go hand-in-hand with improving access to financial markets and services. Access to financial services is a significant issue in many emerging economies such as minorities or low income consumers who do not have bank accounts.

The objective of a regulator around the world is to protect the interest of investors, it become essential to provide knowledge about financial markets to people at large in order to make them to take informed decisions. This will reduce market malpractices and results into efficient market. People should be encouraged to be a part of formal financial system and participate in the financial market in order to benefit them having diversified portfolio. It is also important to draw a clear distinction between public information provided by government and regulatory authorities, and that provided by private sector investment advisors such as banks and brokers. Regulator should also make efforts to introduce securities market related courses in academic programs by having a dialogue with institutions like U.G.C., NCERT etc. Apart from this, research/surveys/studies related to financial education should be encouraged. Research related to ongoing programs should incorporate both qualitative and quantitative assessment. A proper assessment will increase investor confidence and provide feedback to the regulators for appropriate actions at their end. Apart from this, a list of areas where further research is required can be released.

Further, programs should be oriented towards financial capacity building and subsequently appropriately targeted on specific groups. Future retirees should be made aware of the need to assess the financial adequacy of their current public and private pension schemes. National campaigns, specific web sites, free information services and warning systems on high-risk issues for financial consumers (such as fraud) should be promoted. Though the task of achieving full financial literacy will take time but a large number of small efforts which are going on across the globe will definitely play an important role in realizing the goal.

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[1] National Endowment for Financial Education (NEFE)

[2] This definition was first developed by the National Foundation for Education Research in the UK in 1992 and has subsequently been adopted by Australia.

[3] Improving Financial Literacy: Analysis of Issues and Policies, 2005. OECD

[4] Improving Financial Literacy: Analysis of Issues and Policies. OECD 2005.

[5] www.understandingmoney.gov.au