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Unlocking Financial Literacy: Confronting Challenges, Embracing Strategies, and Harnessing Instruments

1. Dr.V.Manickam, Assistant Professor of Commerce(CA),
SRM Trichy Arts and Science College, Trichy-621105.
2. Dr.G.Udhayaraj, Associate Professor & Head, Department of Commerce
SRM Trichy Arts and Science College, Trichy-621105.
3. Dr.R.Sangeetha, Assistant Professor of Commerce,
Government Arts and Science College, Trichy-621712.

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Abstract - Financial inclusion relies on financial literacy as its first step. Financial literacy is essential for achieving financial inclusion, development, and stability. However, recent experiences have shown that without proper financial literacy, people can be harmed instead of helped by financial inclusion. India boasts efficient financial markets and high savings rates, but for wealth creation to occur, the average person needs to become a wiser investor and be protected from financial misconduct. Financial literacy is crucial for basic budgeting, saving, and ensuring a dignified life after retirement. It is especially needed in India due to low literacy levels and a significant portion of the population remaining outside the formal financial system, particularly in rural areas. Financially informed consumers can contribute to the economy by promoting competition among service providers, leading to innovation and improved efficiency.

Key Words: *financial literacy; financial wellbeing; financial resilience*

Four prevailing challenges are our common concerns:

1. The rapid pace of innovation and growing sophistication of financial markets
2. The virtual explosion of financial products (like credit cards) being offered to a vast and growing number of "new consumers"
3. The increasing transfer of risks, such as longevity and investment to households in the pension field in particular
4. Consumers‟ worrying low awareness and understanding of financial concepts and overestimation of their knowledge and skills relative to financial products and issues.

Financial literacy as a means to financial inclusion

Along with enhanced consumer protection, financial education must also be provided hand-in- hand with improved access to financial markets and services, particularly for vulnerable segments of the population.

A few telling figures: in the US, between 25 million and 56 million adults are under banked. Here, in India, only 40% of the population has a banking account, 10% life insurance coverage and only 2% have a credit card. Financial exclusion rates ranging from 50 to 60% of the population are also common to Indonesia or China in Asia, as well as South Africa and Brazil. And this situation may worsen as a consequence of the financial crisis.

India and the RBI„s leadership in the development of comprehensive measures to fight financial exclusion, especially in rural areas and for small and medium - sized enterprises, should be specially recognized.

Here are some of the challenges that lie ahead: financial education should be efficient and aimed not only at enhancing financial awareness but also supporting the development of more responsible financial habits and behaviours.

This is an undoubtedly ambitious target; it should to promote efficient use of public and private resources on financial education. Yet over the past few years, some observers have pointed to the limits of financial education and the relatively uncertain outcomes of related programmes. .There should be introduction of financial education into school programmes which is one of the particularly efficient and appropriate tools. Efficient -- because schools are best able to reach the widest national audience and because they can help develop sound habits and nurture future financially capable and responsible adults. Appropriate – because young people are also an essential target of educational policies.

financial literacy programmes :

Various financial literacy programmes have thus been implemented by concerned institutions, with a lot of them being unique in their approach and delivery mechanisms. For instance, programmes have been customised to suit the requirements of students, microfinance clients, slum dwellers, bank clients etc. Some programmes have a particular focus such as a specific financial product, developing saving habit among target group, customer protection, business management, and so on, while others are more general and deal with money management skills, advocating healthy financial practices etc. Varied techniques such as videos, stories, activities, comic books etc. are used, along with traditional methods of classroom training. Banks like Punjab National Bank and State Bank of India have also begun setting up 'financial literacy and credit counselling centres' that people can go to for gathering requisite information.

Financial services' life cycle

Considering just the financial services' needs of the household over its life cycle, we see that they are very specific to the stage that the household or individual is in at a given point of time. For instance, as a school going kid (in his/ her teenage), an individual might require know-how of savings so that he/ she can save pocket money or scholarship and utilise it effectively. A young person who has just started working and receiving a salary, would require a banking service, complex investment products (given that youth are more inclined to risk-taking and are open to experimentation) and remittance services that would enable him/ her to send a portion of earnings to parents who are not able to do as much physical labour as they could earlier. As time progresses and the individual gets married and starts a family, he/ she is required to think about safer financial products and longer term investments. His/ her dependency ratio is highest at this point – both children and parents are dependent on the individual. As the individual becomes older, simple banking services are required to access remittances transferred by children, and welfare transfers from the government.

Considering all of these specific financial services' requirements at various junctures in life, four teachable moments can be identified: school-going child (grown up enough to understand money and saving), youth (stepping into employment), middle-aged (married, and starting a family), and old age. These are the specific stages of transition, when the need for financial products/ services takes a leap and it is crucial to make the right financial decisions. Thus, these moments are best suited for receiving and benefitting from customized money management advice.

Is financial literacy required only in emerging and developing economies?

financial literacy is essential for both developed nations and emerging economies. However, the focus of financial literacy initiatives would vary depending on the economic profile of the target population. For developed countries, the access to financial products/ services is fairly widespread and hence, consumers/ market participants are required to be educated more about the characteristics of the financial products/services, including their risks and returns. However, for emerging market economies, ensuring adequate access to financial products and services is more important with the financial literacy initiatives focusing on creating demand for these products/services. In India, the access to products itself is lacking. Therefore, ensuring widespread access to financial products/ services and greater knowledge about the basic financial products/ services, including their risk/ return profiles, is essential for expanding the outreach and inclusiveness of the financial system. Thus, our financial literacy efforts are closely interlinked with our financial inclusion strategy.

Why is financial literacy necessary?

Defined financial inclusion as ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups, such as weaker sections and low income groups in particular, at an affordable cost, in a fair and transparent manner by regulated mainstream institutional players. So, from the financial literacy perspective, it essentially involves two elements, one of access and the other of literacy.

While financial literacy for the users of financial services/products is of paramount importance, literacy is also a must for financial service providers. Banks, financial institutions and other market players too need to be literate about their risk and return framework. Every bank, in order to expand its customer base, needs to understand the requirements of its customers, the market, credit and operational risks involved and returns to be achieved. They need to understand that for their business to survive, their customers must survive and for that, they need to understand the appropriateness of the products themselves to be able to explain it to their customers.

Besides, the providers of financial services have a vested interest in the spread of financial inclusion and financial literacy, as it will help them in expanding their business operations to newer segments of the population. Globally, it is observed that commerce for the poor is more viable than commerce for the rich. Financial Inclusion needs to be pursued in a commercially viable manner, which is possible only if the entire suite of products including credit products, remittance services and deposit products are offered to customers. The commercial viability of financial inclusion efforts is essential for ensuring long term sustainability and scaling up of this business. The failure of financial intermediaries to ensure effective implementation of financial inclusion efforts as a viable business model indicates the lack of basic financial literacy on the part of these financial intermediaries

Institutional framework in India

One critical advantage that India has in its Financial Literacy and Financial Inclusion efforts is the strong institutional framework in place for guiding its implementation. We have the Financial Stability & Development Council (FSDC) headed by the Union Finance Minister which, inter alia, has been mandated to look after Financial Inclusion and Literacy efforts. With heads of all financial sector regulatory authorities being part of the FSDC, it seeks to ensure inter-regulatory co-operation for attaining the stated goals. FSDC has constituted a Sub-Committee to focus solely on Financial Inclusion and Literacy. In our multi agency approach, Reserve Bank has taken a lead role in spreading financial inclusion and financial literacy, both in terms of creating an enabling policy environment and providing institutional support.

One of the important tasks that the FSDC Sub-committee has taken up is to formulate the National Financial Literacy Strategy document with the following objectives.

1. Create awareness and educate consumers on access to financial services, availability of various types of products and their features.
2. Change attitudes to translate knowledge into behavior
3. Make consumers understand their rights and responsibilities as clients of financial services.

Financial literacy – Ideally start early in schools

It is well recognized that to be effective, financial literacy initiatives should ideally commence at school level although, even at a later stage adult education would provide substantial benefits. Financial education at the school level would involve teaching the basics concepts for laying a strong foundation. The groundwork for this sort of conceptual understanding is best laid in a formal educational setting. The reason why it is important to teach financial education in schools is also due to its multiplier effect on the society as they would be in the best position to act as ambassadors for the spread of financial education in their surrounding environment. In India, therefore, we are engaging with the curriculum setting bodies like National Council of Educational Research and Training (NCERT), Education Boards like Central Board for Secondary Education (CBSE), Central and State Governments to try and embed such concepts in the school curriculum.

Who all are partnering in this initiative?

Everybody has to be involved in the financial literacy efforts. In India, a large number of stakeholders including the central and state governments, financial regulators and players, civil society, educationists and others are involved in spreading financial literacy. As we have adopted a bank led model for financial inclusion, banks are actively contributing to our financial literacy initiatives by setting up Financial Literacy and Credit Counseling Centers with focus on educating people on availability of various deposit, credit and remittance products offered by banks, so as to create demand for the same, with the aim of attaining Financial Inclusion. Use of mobile Financial Literacy vans by banks in the North Eastern States, Weekly Radio programmes on financial literacy in some States by banks and similar programmes in Tribal districts by NABARD, awareness programmes on various Government Sponsored self employment schemes involving bank loans and subsidy by Government agencies like KVIC,DICs, SC/ST corporations, Mass media campaigns, tie ups with educational institutes, financial awareness workshops/ help lines, books, pamphlets and publications on financial literacy by NGOs, financial market players, etc. National and State level rural livelihood missions have large number of field functionaries for proper handholding support to a large number of Self Help Groups. A number of other websites/portals of banks/ /State Level Bankers Committees are disseminating information on banking services. Conduct of Financial Literacy programmes by Rural Self Employment Training Institutes, conduct of training programmes for Farmers Clubs, NGOs & SHG members by NABARD are also useful initiatives in this regard. State Governments and local level administrations have an important role to play in financial literacy campaigns as they are closer to the ground and will be in a position to better implement the initiatives taken.

Conclusion

There is a need for a partnership of all the stakeholders in a collaborative manner. The preparation of National Strategy on Financial Education is a step in this direction. However, like the proverbial "horse and carriage", efforts to improve financial capacity and to raise financial literacy best go together; it makes for an easier and more successful journey.

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