Duvvuri Subbarao: Financial education – worthy and worthwhile

Comments by Dr Duvvuri Subbarao, Governor of the Reserve Bank of India, at the Reserve Bank of India-Organisation for Economic Co-operation and Development (RBI-OECD) International Workshop on Financial Literacy, Bengaluru, 22 March 2010.

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Mr. Pranab Mukherjee, Hon'ble Finance Minister of India, Ambassador Richard Boucher, Deputy Secretary General, OECD, Dr. K.C. Chakrabarty, Deputy Governor, Reserve Bank of India, Mr. V.K. Sharma, Executive Director, Reserve Bank of India, Distinguished Guests and my colleagues from the Reserve Bank

1. First of all, I want to say that the Reserve Bank of India attaches immense value to this workshop on "Financial Literacy". The year 2009/10 marks the Platinum Jubilee of the Reserve Bank. Over the last one year, we have celebrated this milestone in diverse ways. By far the most enduring part of the celebrations has been the outreach programme which involved the top management of the Bank including the Governor and the Deputy Governors fanning out across the country, visiting typically off-main road, away from urban influence, unbanked villages. The outreach programme was driven by two objectives. The first was to understand the needs and aspirations of emerging India living in the villages, mainly as a reality check on the Bank's programmes and policies. The second objective was to demystify the Reserve Bank and explain to people at large what it does, why what it does is important, and how it makes a difference to peoples' every day lives.

Outreach programme

2. I am happy to claim, with a deep sense of fulfillment of course, that between all of us in the top management of the Reserve Bank, we have visited at least one village in every state and most union territories. Given that India has over 600,000 villages, our coverage was, by all accounts, miniscule. Even so, it has been an enormously rewarding experience for us as individuals and for the RBI as an institution. We learnt more this way than what we could have by reading hundreds of reports and attending scores of meetings and conferences. And what is more, it was a lot more fun than sitting in air-conditioned offices in skyscrapers. If I were to single out one important lesson from these visits, it is about the growing aspirations and the rising awareness of rural people. We were all struck by how much rural women knew about saving and investment and struck even more by how eager they were to learn more about saving and investment.

3. It is axiomatic that when income levels rise, the time horizons of households become longer. From thinking about the next agriculture season, they start thinking about the next five years, and then about their children's future and their own old age. These are healthy concerns on which we must capitalize. This realization sensitized all of us in the Reserve Bank that we will be failing in our mandate if we do not address the challenge and the opportunity of financial literacy head on. That is the reason why learning from this workshop on furthering financial literacy is important and valuable to us in the Reserve Bank.

Partnering with OECD

4. It is our privilege and good fortune to have the OECD as a co-sponsor for this workshop. The OECD has been an intellectual leader in the field of financial literacy. It has been involved in supporting research and evaluation in financial literacy and has been proactive in spreading awareness about the importance of financial education. The OECD is by far the most valuable repository of knowledge on grass root experiments in financial literacy. Learning from these international best practices can certainly help India to "leapfrog"

over several stages of the process. Partnering with OECD is therefore a huge and valuable learning opportunity for India.

Why is financial literacy important?

5. Let me step back a bit and spend a few minutes on why financial literacy is so vital. There is virtually no country whose economy has developed and matured without a corresponding deepening of the financial sector. And such deepening is possible only when individuals and households are financially literate and are able to make informed choices about how they save, borrow and invest. Indeed, it is possible to argue that the sub prime problem would not have grown to the explosive proportions that it did if people had been financially more "literate".

6. Beyond the individual level – and this is equally important – greater financial literacy can aid a better allocation of resources and thereby raise the longer-term growth potential of the economy. India clocked average growth of around nine percent in the period 2004–08 before the global financial crisis interrupted the growth trajectory. One of the key drivers of this growth has been the increased savings rate in the economy, which reached a high of 36 percent of GDP in 2007/08, the year before the crisis.

7. The increase in savings itself has been a consequence of the changing demographics and the welcome trend of rise in household savings. However, nearly half our population still lacks access to banking and other financial services. If we can redress that and provide this "left behind" population access to the entire gamut of banking services, we could raise household and overall domestic savings even further, and that will fulfill one of the necessary conditions to achieve the double-digit growth that we aspire to.

8. To make that happen, we need to deepen the penetration and expand the coverage of financial services to all sections of society and to all regions of the country in a meaningful way, particularly to those at the bottom of the economic pyramid. Lack of financial awareness and literacy is one of the main reasons behind lack of access to financial products or failure to use them even when they are available. An NCAER and Max New York Life study shows that in India, around 60 percent of laborers surveyed indicated that they store cash at home, while borrowing from moneylenders at high interest rates – a pattern which increases their financial vulnerability.

9. Financial literacy and awareness are thus integral to ensuring financial inclusion. This is not just about imparting financial knowledge and information; it is also about changing behaviour. For the ultimate goal is to empower people to take actions that are in their own self-interest. When consumers know of the financial products available, when they are able to evaluate the merits and demerits of each product, are able to negotiate what they want, they will feel empowered in a very meaningful way. They will know enough to demand accountability and seek redressal of grievances. This, in turn, will enhance the integrity and quality of financial markets. One big lesson we have learnt in our outreach programmes is that financial literacy is not just a public good; it is a merit good. What this means is that by deepening financial literacy, not just individuals and households, even the society at large stands to benefit.

Reserve Bank's initiatives

10. In the Reserve Bank, we treat financial inclusion and financial literacy as twin pillars. Financial literacy stimulates the demand side – making people aware of what they can and should demand. Financial inclusion acts from the supply side – providing in the financial market what people demand. While we have traditionally focused more on addressing financial exclusion through many supply-side measures so as to help "connect people" with the banking system, we have come to recognize the demand side imperative also – that

financial literacy and education should be developed hand in hand with improving access to financial services.

11. We have taken a number of measures over the last few years to further financial inclusion and financial literacy. We have intensified these efforts in the last one year. I do not want to go into them as you will have opportunity to discuss, and I hope critique, these measures in the course of this workshop. But I do want to highlight what the Reserve Bank and commercial banks have agreed upon.

RBI's advice to banks on financial inclusion

12. Specifically, we agreed upon three things. First, the lead bank in each district has been asked to draw a roadmap by the end of this month (March 2010) for ensuring that all villages with a population of over 2,000 will have access to financial services through a banking outlet, not necessarily a bank branch, by March 2012. There will be an intermediate target to be achieved by March 2011. Banks will have to harness technology and innovate low cost business models to accomplish this. Second, all domestic public and private sector commercial banks have agreed to come up with their specific, Board approved Financial Inclusion Plans (FIPs) by March 2010 to be rolled out over the next three years. These Plans will have both qualitative indicators and quantitative milestones. Third, we have urged all banks to include criteria regarding financial literacy and financial inclusion in the performance evaluation of their field staff.

Research on the way forward

13. In the Reserve Bank, we attach value and priority to deepening financial literacy. We know it is a formidable challenge but also a huge opportunity. We do not have all the answers; I am not sure we even have all the questions. But we are eager to learn. I know this workshop will take us closer to the answers to some existing questions, and maybe even raise some new ones. Just to get you all started off on that, I want to raise a few ideas where further research will get us a lot of mileage.

- First, given the significant commitment to financial education by the government and a host of stakeholders, it is important to determine the impact and effectiveness of such programs so as to understand what works and what does not. We are aware that India is a diverse country that has typically allowed its development to go forward by letting a "thousand flowers bloom" across the country. It will be useful to do a survey and evaluation of these grass root experiments to draw up the best practices. In particular, we need to study the link between financial literacy on the one hand and financial inclusion and improved financial outcomes on the other so as to understand which models have been effective.
- Second, financial literacy programs require trained instructors. To be most effective, these instructors or counsellors must be available to clients at the time when they are making important financial decisions. The awareness and timeliness of financial advice, are important to make financial literacy useful and relevant. In this context, it would be useful to study successful experiments from NGOs such as SEWA which started a financial counseling training service for poor self-employed women, including a training for trainers, and identify how we can mainstream those one-off successes in a cost effective way.
- Technology has the potential to enhance the development of financial literacy, both as a delivery channel (e.g., the Internet) and as an intrinsic part of the learning process (e.g., instructional computer). Technology can also bridge distances for those living in rural and remote communities. How can we best leverage communications and technology in ways to engage and empower people in the area

of financial literacy? Recognizing that people receive, learn and digest information in different ways, it would be useful to survey all possible avenues of communication to determine the best way of capturing people's attention and interest. The use technology in the training of trainers could also be explored.

Let me stop there so that you can get on with the serious business of engagement with issues in financial literacy. Once again my thanks to OECD for partnering with the Reserve Bank and best wishes for the success of this workshop.