

## **K C Chakrabarty: Financial literacy – challenges, strategies and instruments**

Welcome address by Dr K C Chakrabarty, Deputy 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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1. Mr. Pranab Mukherjee, Hon'ble Finance Minister, Government of India, Dr. D Subbarao, Governor, Reserve Bank of India, Mr. Richard A. Boucher, OECD Deputy Secretary General, Mr. Andre Laboul, Head, OECD Financial Affairs Division and Chair, International Network on Financial Education (INFE), Ms. Flore-Anne Messy, Principal Administrator, OECD, Distinguished Guests and Workshop Participants from all over the globe, Ladies and Gentlemen

2. A very warm welcome to you all to the first ever RBI-OECD initiative on Financial Literacy Workshop in India at this garden city of Bengaluru, lovingly referred by the global community as the Silicon Valley of India. In fact, there could have been no better place than this city as it can not only boast of locating some of the world's best known financial and knowledge-based services technology providers, but the State of Karnataka has taken pioneering initiatives in promoting financial literacy through school curriculums.

3. It is a matter of profound pleasure and privilege to welcome Mr Pranab Mukherjee, the Hon'ble Minister of Finance, Govt. of India who, despite his hectic schedule and multiple responsibilities, has kindly agreed to deliver the Keynote Address and spare some thoughts for the attendees to work further on. Hon'ble Finance Minister, Sir, while welcoming, we express our sincere gratitude to you.

4. I also extend a very warm welcome to Dr Subbarao, Governor, Reserve Bank of India, who has successfully steered the policy course of the RBI through one of the difficult phases in recent times. I welcome you Sir. It was your idea that RBI's Platinum Jubilee celebration should be marked with an event of international impact and long-lasting importance in the financial services sector. This Workshop is a fructification of your idea, Sir.

5. My special welcome for Mr. Richard A. Boucher, Deputy Secretary General, OECD for making this workshop possible, along with other OECD officials, who are partners in conducting this workshop. My heartiest welcome to Mr Andre Laboul, Head, OECD Financial Affairs Division and Chair, International Network on Financial Education, Mr Helmut-Hans Kotz, Member of Bundesbank Executive Board and Chair of OECD Committee on Financial Markets and Ms Flore-Anne Messy, Principal Administrator, OECD.

6. I welcome various panelists of the workshop and other distinguished delegates from various countries who have come to share their experiences and perspectives to this very encouraging initiative.

7. Established in 1961, OECD is engaged to help its member countries to achieve sustainable economic growth and employment and to raise the standard of living in member-countries while maintaining financial stability – all this in order to contribute to the development of the world economy. As one of its key objective, OECD has been working in collaboration with a host of governmental agencies and central banks across the globe to promote and impart financial education for creating an embedded protective guard against potential financial risk.

8. OECD has also established the International Network on Financial Education (INFE) in mid-2008, which brings together senior government officials from both OECD member countries and non-member economies to discuss issues, new developments, experiences and programmes related to financial education.

9. I must add that the reason why OECD has so readily agreed to conduct this joint workshop with RBI by sharing and sparing their resources is that we in RBI want to adopt the international best practices honed by OECD and improve upon them for multiplier effect to cover vast multitudes of unbanked and financially illiterate population. After all, financial inclusion is a necessary precondition for sustainable and inclusive growth.

10. Simply speaking, financial literacy refers to knowledge required for managing personal finance. It does not necessarily refer to formal education in finance. Instead, it encompasses an understanding of how to use credit responsibly, manage money and savings, minimise financial risks and derive long-term benefits of savings.

11. It is now well known that financial illiteracy afflicts both developing and developed countries although in different measures. Several surveys in countries like UK, Australia, etc. have found out that many people are taking on financial risks without realising or understanding it, and in fact are very poor managers of money.

12. It is genuinely believed that the recent financial crisis is largely precipitated by rampant financial illiteracy or the lack of transparency that financial literacy is supposed to bring into the model code books of financial service providers. We have a plethora of instances of mis-selling and customers undertaking financial contracts without understanding the risk import of such transactions leading to unforeseen volatility and unsustainable business.

13. Financial literacy is also a necessary pre-condition for success in financial inclusion drive. Dimensions of this issue can be gauged from the recent paper by the Financial Action initiative, a consortium of researchers. For the benefit of this august audience, let me quote 3 important findings of the paper:

- 2.5 billion adults, just over half of world's adult population of 4.7 billion, do not use formal financial services to save or borrow.
- 2.2 billion of these unserved adults live in Africa, Asia, Latin America and the Middle East.
- Of the remaining 2.2 billion adults who are financially served, a little more than 800 million live on less than US\$ 5 per day.

14. With such estimates of the dimensions of the financial exclusion problem, and the understanding that achieving financial inclusion is not possible without financial literacy, the promotion of financial literacy acquires an even greater urgency.

15. Financial literacy can be promoted by bringing in wider section of public within the institutional literacy framework. Such institutional initiatives would largely focus on improving literacy standards. Also, all financial service providers have a moral responsibility to bring in a fair degree of transparency and fairness, more so those engaged in selling financial products and financial counseling and the ethical grid within which they are supposed to work. This initiative is no less challenging than propagating financial literacy to the members of the public.

16. Hence, there is no doubt that financial literacy should be one of the key initiatives in coping with the ever-expanding horizon of risk. In RBI, we have started a unique public interface programme whereby RBI is trying to bridge the gap in understanding regulatory perspectives of some key policy initiatives. However, Reserve bank or central banks or bank regulators acting alone would not be successful in meeting this extraordinary responsibility in propagating financial literacy and bringing transparency in dealing with financial services and products. Wider and active participation of all stakeholders like other financial regulators, government – state & federal both – financial service providers, academia and others in civil society, is needed in this grand initiative. Also we require massive global efforts and co-operation for achieving tangible results in this area.

17. I am happy to share that the whole-hearted participation by all the stakeholders in today's Workshop is a testimony of this commitment of all the stakeholders and our determination to invoke global efforts and co-operation in this area.

18. We look at this financial education effort as a journey together by world economies to spread awareness, impart financial education, empower less privileged by providing access to financial products and markets so that they can play a meaningfully active role in ensuring sustainable growth and prosperity of the mankind.

19. I am sure this historic Workshop in India will offer a rewarding and enriching experience to all of us. Once again, a hearty welcome to all of you.

Thank you.