S S Mundra: Financial education – basics and beyond

Keynote address by Mr S S Mundra, Deputy Governor of the Reserve Bank of India, at the Conference on Financial Literacy, organised by the College of Agricultural Banking, Pune, 15 June 2015.

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1. Shri P. K. Panda, Principal, CAB; Shri Sandip Ghose, Director, NiSM; delegates to Conference; my colleagues at RBI and friends from the banking fraternity! It is a pleasure to be here this morning to deliver the keynote address at this Conference on Financial Literacy. I understand that it is quite a heterogeneous group with representation of various stake holders in the field of financial inclusion, literacy and consumer protection and hence, I believe you would have plenty of interesting things to discuss over the course of two days.

2. I understand that this National Level Conference was preceded by three Regional Conferences at Hyderabad, Kolkata and Chandigarh and this is the culmination of the process of extensive consultations amongst the stakeholders which would lead to crystallization of action points. I think such conferences should serve a far greater purpose than only discussing issues. They should lead identifying the challenges, working out some key action points and generation of ideas which could be discussed in other formal and informal interactions amongst the delegates. Let me now turn to the subject for the morning.

3. As Central Bankers, very often, we talk about the impossible trinity, while discussing the larger monetary policy framework. Some of you would know the concept. But for the benefit of others, Impossible Trinity is a concept in macroeconomics which states that it is impossible to simultaneously pursue three goals that of a stable foreign exchange rate, free capital movement and an independent monetary policy. You must be wondering what this has to do with theme of the Conference. I am drawing reference to the "impossible trinity" just to begin talking about an essentially possible and feasible trinity and this "possible trinity" is that of financial inclusion, financial literacy and the consumer protection. Together the three, form a triad that has a vital bearing on the stability of the financial system. That I think should be the overall theme of what we discuss today. On a broader level I would also like to mention that this entire subject has a much wider ramification. I would like to recall a declaration made seven decades ago. This was a very important declaration by the International Labor Organization in their convention held at Philadelphia in the year 1944, which had a very significant and remarkable sentence. It stated, ***"Poverty anywhere is a threat to prosperity everywhere"***. To eliminate or to address the issue of poverty, financial inclusion is a very important means. Until and unless you have an inclusive society you cannot dream to address the challenge of poverty. Likewise, if universal financial inclusion has to become a reality, efforts to spread financial literacy have to be an essential pre-requisite. So that is what we are talking about here. Financial literacy to financial inclusion to poverty elimination, this is something very very important for the global stability.

4. When I looked at the theme of this conference and as I pondered over what to speak, I actually started wondering about the nature of financial illiterates in the system. My own sense is that the "financially illiterate" can be broadly divided into five categories. Let me explain:

5. The first form of financial illiteracy, I call "Wise Illiteracy" and people as "Wise Illiterates". Now you must be wondering that how a person can be called wise and illiterate in the same breath. When I say "wise illiterates", I am referring to the victims of Madoffs of the world or the people who happily submit to the financial scams – exchange scams, penny stock scams or exotic derivative products. This class does not only include individuals, but also corporates. They have all the resources at their command; they understand risks in all its dimensions and pros and cons of their actions but despite that with an unnerving regularity, keep falling into the trap of mega level of scams. This happens in India as well as elsewhere across the globe. So, these are the "wise illiterates" in my definition.

6. The second category of financially illiterates I call them ***"Greed-driven Illiterates"***. These are people who are well educated and well understand the risks involved in various financial decisions that they make. But in their case, greed overpowers sanity. Believe me in Reserve Bank of India, every day we keep receiving strange complaints or the grievances from people, who were offered a big sum of money from the British Government or a large corporate firm or someone has left them a big endowment. They are promised huge sums of money 5 million pounds or 10 million pounds, if they pay just a small fee. People end up paying once and then they fall into a trap. One payment call leads to another – for tax purpose or for clearance. These days, Reserve Bank's name is also very liberally used. Payments are stated to have been assured by Reserve Bank's Governor or sometimes even in my name. An email is sent out stating that some fund has been deposited on your behalf and the money is sitting in Reserve Bank of India which you can claim. Very recently, I came across a unique incident. An Indian lady came across a gentleman, claimed to be settled in UAE, through the portal of a marriage bureau. Their association grew and they decided to marry on an appointed date when the gentleman would arrive in India. On the appointed date, that lady received a phone call stating that the gentleman had arrived but since he had a huge amount of foreign currency and for which, there would be need to pay some duty, some registration charges etc. She paid Rs. 55000. Next day, a call said that the person had been taken to Delhi where another clearance, a certificate from Reserve Bank of India was needed which could establish that it was not dirty money and so on. In each such instances that I am mentioning people have ended up paying at least five to seven lakh of rupees. Most of these are well educated people, many of them are professionals, doctors, doctorate by education, post graduates, lawyers. It is only after paying up a sizeable amount they smell the rat and come forward for grievance redressal. It is this category of people that I call the "greed driven illiterates". There are several of them who have put their money in plantation schemes, emu farming, multi-level marketing schemes and have burnt their fingers.

7. Let me now come to the third category – whom I have named ***"Information – deprived Illiterates"***. There is rapidly growing middle class in the country. In addition, there is rapid urbanization and a large number of people migrate from the rural to urban areas. As the middle class grows, urbanization increases; so do the financial needs of the people – these are lifestyle needs for savings/credit/investments /retirement planning etc. The need may be for consumer goods, vehicles, house, investment requirement, mutual fund, insurance etc. The providers of these products/ services are becoming increasingly sophisticated by the day as they are in possession of more and more information and have the capability to apply more analytics.

8. On the contrary, the consumers, the recipients of these services, are not really becoming financial literate in that sense, at the same pace. They do not have access to the level of information that the service providers have which has led to a wide gap, an asymmetry in information and knowledge between the service provider and service receiver. That is why I call this section of people illiterate, "information deprived illiterates", not in the sense of education, albeit in respect of the financial information they possess.

9. The fourth category – I have named ***"Illiterate Illiterates"***. These are the people who have just entered the formal financial system or formal banking system. Under the PMJDY, in the last one year almost fifteen crore new accounts have been opened. In three years before that under RBI's financial inclusion push, another fifteen crore accounts had been opened. Initially villages up to a population of 5000, then 2000, then below 2000, were covered in a phased manner. The sum and substance is that in the last four – five years around thirty crore new people have entered into formal financial/banking system for the first time. We keep on hearing that there are not enough transactions in a large number of these "zero-balance" accounts. These people are the "illiterate illiterates", – illiterate both in the sense of normal education and more so in respect of financial education.

10. I am in a dilemma over where I should categorize a very important segment of the population that is "housewives". Irrespective of whether they are clubbed under the category

of ***"Information- deprived illiterates"*** or the ***"Illiterate illiterates"***, they constitute an extremely important target group for the viewpoint of success of financial literacy endeavor. I say this because apart from being recipient of financial education and improving their financial decision making capabilities; they have the potential to educate and influence other members in the household, especially their children.

11. The fifth category of illiterates, I have named as ***"Kindergarten Illiterates"***. These are the young students and justifiably many of them are financially illiterate. These are school children and it would be sometime before they enter the formal world of finance. But they are another very important target group, which is needed to be brought under the financial literacy drive.

12. In my address, I would focus only on the last three groups. I do not intend to talk about the "wise illiterate" or the "greed driven illiterate" because what these people really need is some kind of goading from time to time, to curb their instinct and impulse for making quick money.

13. Let us now delve into the kind of financial literacy drive that would be useful for these three groups of people. First of the three is the "information deprived illiteracy". For this group – what is needed is education, to bridge the information gap between the service provider and the service receiver. Generally, whenever we meet in this kind of conferences, our attention is squarely focused on the new customers who have joined under the financial inclusion drive and we think that entire financial literacy drive should be focused only on this segment. Undoubtedly, this segment is important but we have this existing population group and growing every day that is increasingly using a number of banking and other financial services. In my opinion, our efforts should be equally focused on them. They should know their rights and responsibilities and be able to make informed financial choices. This kind of education can only be imparted through coordinated efforts from various agencies – the government, the financial institutions themselves will have to pitch in, the industry, the consumer associations have to play a role and the mass media – whether it is the internet, mobile, paper publication, specific publication, classroom training. All these tools would require to be employed. The level of awareness about simple things like need for timely payment of the bills, credit card dues etc. is absolutely low. People aren't really aware about the penalties that they might end up paying for their failures to make timely payment of bills/ credit card dues. Not only the penalty could be severe, even more importantly, the bad credit behavior can feed into their credit history with credit bureaus which can serve as an impediment for their future credit requirement. These are the areas on which the literacy efforts for this group should focus on.

14. Coming to the next category i.e. the "illiterate illiterate". They would need to be educated on basic savings account, basic investment, insurance and pension needs. They have to be made aware about the lifecycle needs and the importance of financial savings to meet these needs. These lifecycle needs are education of children, health requirement, marriage of children, building first house, preparing for the old age through pension contribution etc. On a very practical level, for people entering into the formal financial system at a late stage in their lives, it may not be a big motivation to save or invest since they might feel that these are not going to help them greatly in their own lives. There is a strong possibility that this kind of reaction may come. So, it would be very important that when we do a literacy drive to this segment of people, we should send a strong message that whatever they start doing today would have a very significant impact on their next generation, on their children. By all these efforts their children can get better education, can lead a healthy life, can have a shelter over their head – this could be a proper motivation for them. On a larger scale; when these things are aggregated, the potential pay out for the economy can be really very, very big. That is where we need to concentrate our efforts for this segment.

15. Another important thing about this segment is while we educate them, we give them all kinds of learning about the formal financial sector, they should also be made aware about the harmful side of financial inclusion efforts. What is the harmful side? Overzealous efforts by financial inclusion crusaders can result into over-indebtedness for this target group. Soon after entering into a formal financial system they could become a victim of predatory lending, high

interest rates, higher service charges etc. These people would need to be protected from such possibilities because, we must realize that this group has entered the formal system after lot of efforts and cajoling, and if for any reason if they walk out feeling hurt, then it would be virtually impossible to bring them back. So this sensitivity has to be there.

16. As far as the kindergarten illiterate I have already spoken enough before awarding the winners of the NCFLAT. But broadly under the FSDC and its Sub-Committee, a Technical Group is working on the Financial Inclusion and Financial Literacy areas. This Technical Group has formulated the NSFE and efforts are on to introduce financial education as a part of formal curriculum under the various state boards, and the Central Board. While there has been some success but I think still lot of work is required to be done. Unfortunately I don't see the same sense of urgency on part of various authorities in the education system to understand the importance of this drive or the requirement of this and move fast enough. But the efforts would need to continue. Quickly, I would like to cover at this point when we are talking about financial education and financial literacy a lot of efforts have already gone into addressing the supply side and the consumer protection issues. You all may be aware that recently Reserve Bank of India has come out with a charter of customer rights, where five basic rights of customers have been enshrined. We have granted twelve to eighteen months to the banks to voluntarily adopt this charter. We have simultaneously requested IBA and BCSBI to prepare a Model Code which can be adopted by individual banks. The banks can customize it for their individual requirements and we will observe for the next twelve to eighteen months that how this is shaping up. If we are not satisfied with the progress and find any need to intervene, we would do so. Similarly I have already mentioned about the FSDC Sub-Group and the Technical Group in which representatives of all financial sector regulators participate. In addition to Reserve Bank of India, SEBI is there, IRDA is there, PFRDA is there, so it's a combined effort of various regulators, in the area of financial literacy. Then there is BCSBI, which is a voluntary body. All the banks have committed to abide by the codes prepared by BCSBI including one for MSME clients. I see that one of the panel discussions is focused on MSME, so I would not go into the details. Then there is RBI's Banking Ombudsman Scheme where customers can seek grievance redressal. Very recently we have also issued guidelines for each bank to appoint their own internal Ombudsman or basically what is called as the Customer Service or Customer Complaint Resolution Officer. Banks have practically in every district set up Financial Literacy and Credit Counseling Centres which is another initiative to address the supply side. RBI website has material on financial literacy which is available in thirteen languages. In addition Reserve Bank has prepared some short films, cartoon literature, sixteen posters, which are aimed towards spreading financial literacy to the target group. And finally very soon more players would be coming in the banking sector. There would be new entities in the form of small finance banks and payment banks. Also on the payment system side some players have been allowed to issue the pre-paid cards up to a certain extent. So these all are creating more enablers in the supply side.

What are the challenges?

17. Challenges exist on the demand side. There are certain barriers to demand side and they are important. Important because the customers who are financially literate would demand information and thereby play an important role in ensuring transparency among the financial institutions. The transparency in the market encourages institutions to compete on the basis of better products and services and at lower cost. That is what the informed customers bring into the market and ultimately it is beneficial because it expands the market and brings more and more new customers.

Demand side barriers

- What are these demand side barriers? The first demand side barrier is more on personal level. A large number of people who have come into the financial system now have low or uncertain incomes. For them, any high fee or a stipulation like maintaining a minimum balance in the account it can become a barrier. This is what I call a personal barrier.

- The second is, of course, the low level of financial literacy. If they don't have that level of literacy, then they would not know about the availability, neither can they judge the products' suitability nor can they compare various products. When that does not happen for the new entrants to the financial system, it creates a trust deficiency. It does not break that hesitation to use the banking services. That is the second barrier.
- The third barrier is low social and technological inclusion. What is social inclusion? I did mention in the early part of my address about the rapid migration of people from rural to urban area. The migratory population coming into the towns or cities find themselves displaced from their roots. They don't have their ecosystem in place, whereby something like obtaining an address proof or a simple introduction becomes a challenge. So, these are the social inclusion challenges.
- Similarly on technological side, the hesitation to use ATMs, mobile banking, net banking etc. These are the kind of things which act as a technological barrier. I have seen in the programme schedule there is a session on this also. This should become an important part of the financial literacy drive that we are talking about.
- And finally the fourth barrier – the linguistic barrier. India is a diverse country. There are so many dialects, so many languages and until and unless players deal with the consumers in respective area in the local language; unless the literature, the material is made available in the local language, the efforts towards connecting these consumers would never succeed.

18. Effectively, we have so much of supply side infrastructure available and at the same time we do have these demand side barriers. So the challenge before us is how to break the barriers on the demand side and make effective utilization of infrastructure which is created. I think that conferences and seminars like this would serve a great purpose if these specific areas can be focused upon and a definitive strategy and specific action points be worked out for each area, each kind of illiteracy and each target group. The problem universally is that there is no dearth of policy. We have the best literature available which tell you what to do. You have consultants available who would also tell you what to do; you will also derive many conclusions from the conference and maybe list out dozens of what to do. The challenge is how to do it. So along with each what to do, if we can also outline how to do it, then only the purpose of such conferences would be served.

19. This becomes important win-win for both – for the consumer as well as the providers. If the consumers get service suitably, they develop the confidence and subsequently the requirement and the demand for this kind of product enhances. Consumers prosper and if they prosper they provide more business to the providers – it becomes a virtuous cycle. And then the industry and the service providers can reasonably expect to enhance their profitability and earnings by fair and transparent measures, rather than chasing profitability through all kinds of dubious means. Globally we have seen imprudent institutions getting into the mess and then requiring government bail outs. The regulators are forced to work hard to clear the left debris, when these unscrupulous players exit the scene.

20. Before I conclude I would like to mention that just the other day I came across a paper titled "National Strategy for Financial Literacy-Count me in, Canada." I found it to be quite a focused paper. The paper sets out goals and priorities to help Canadians better manage their finances and make appropriate decisions as their needs and circumstances change. It also calls on organizations to join efforts to help Canadians take action and make financial literacy a life-long journey. The strategy has clearly articulated three goals for the citizens:

- manage money and debt wisely
- plan and save for the future

- prevent and protect against fraud and financial abuse

21. The paper also details three priorities for achieving concrete actions and effective implementation of the strategy for achievement of the above policy goals:

- collaborating and sharing between governments, educators, financial service providers, employers and non-profit organizations, as well as individuals and families.
- tailoring programs and applying plain language principles
- reaching and engaging each and every Canadian

22. Applying Plain language principle is absolutely important. I was also hinting at this earlier when I mentioned that our communication should be in a language and through a media which is understood by the receiver, otherwise it will not serve the purpose.

23. So, the Canadian National Strategy for Financial Literacy lists out three goals, sets out three priorities for achieving concrete action and also makes a pitch for measuring the success periodically through a range of evaluation tools supported by research. Overall, the document is very focused and I wish if we could come out with a blue print of this kind after the deliberations at this conference, which can serve as a national reference paper, that would be quite an achievement. I understand this cannot be the final word as several initiatives are being taken in this direction simultaneously. But this paper can certainly help in raising a healthy debate and ultimately help in further fine-tuning the approach for promoting financial literacy in the country.

With that, I wish this conference all the success.

Thank you very much!