

Swaminathan J: Charting a course to prosperity - the importance of financial literacy

Speech by Mr Swaminathan J, Deputy Governor of the Reserve Bank of India, at the Conclave on Financial Literacy, Madurai, 8 April 2024.

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Smt. Divyadarshini IAS, Managing Director, Tamil Nadu Corporation for Development of Women; Shri Shankar Narayan, CGM, NABARD, Chennai; Shri Vasimalai, Executive Director, Dhan foundation; Convenors of SLBC, Tamil Nadu and Puducherry; Smt. Uma Sankar, Regional Director, RBI, Chennai; senior bankers; Financial Literacy Counsellors; Associates and Coordinators of Centre for Financial Literacy; Financial Literacy Community Resource Persons; ladies and gentleman, I am happy to inaugurate the Conclave on Financial Literacy at Madurai today.

Madurai holds an important place in the history of Tamil Nadu. The city is famous for its rich heritage, and promotion of Tamil language through "Sangams", thereby, the city is fondly referred as "sangam valartha nagaram".

The city was also graced by the presence of Saint Thiruvalluvar more than 2,000 years ago. In the context of today's conference, I would like to recall one of his famous couplets which succinctly explained the importance of financial planning for the kings and people.

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", (Thirukural No. 478)

The Saint explains through his Kural that even though the income of a king may be small, it will not cause his ruin if his outflows are not larger than his income.

In fact, this sage advice is even more relevant in today's consumerist economy. A recent survey by the Mint newspaper¹ reveals that 50 per cent of Indian shoppers are choosing to consume now rather than focus on long-term financial planning. Therefore, there is a need to instil the idea of financial planning, budgeting, and saving amongst the people, especially youngsters, for ensuring financial discipline from an early age.

Financial literacy² calls for empowering people with the knowledge and understanding of various financial concepts so that they can make informed choices about their money and utilise financial services appropriately.

Indeed, financial literacy is central to supporting the developmental objectives of inclusive growth. By addressing the demand side of financial inclusion, financial literacy enables people to understand the benefits of formal financial products and regulated financial providers as well as to make suitable choices across savings, credit, insurance, pension and remittances.

Fortunately, the Indian economy today is the fastest growing amongst the major economies of the world. However, for this growth to be inclusive, it is imperative that we

have a financial system that works for all. This objective stands at the heart of all the efforts being made by the RBI towards financial inclusion.

Enhancing financial literacy in India demands a multi-faceted approach involving collaboration between the government, financial institutions, non-profit organizations, and the private sector. It requires targeted educational programs, awareness campaigns, and innovative solutions that cater to the diverse needs and preferences of different demographic groups.

Recognising this, India's National Strategy for Financial Education (NSFE) for the period 2020-2025 has been formulated as a forward-looking framework designed to meet these requirements. The '5 C' approach of the strategy emphasises:

- i. the development of relevant Content in the curriculum in schools, colleges and training establishments,
- ii. developing Capacity among intermediaries involved in providing financial services,
- iii. leveraging the positive effect of Community-led model for financial literacy,
- iv. appropriate Communication strategy for financial literacy, and,
- v. enhancing Collaboration among various stakeholders.

The strategy aims to equip people from all walks of life with the knowledge and tools they need to navigate the complexities of the financial landscape.

On its part, the RBI has adopted several measures to enhance the channels for disseminating financial literacy. It has promoted various public awareness campaigns such as RBI Kehta Hai and continues to create and update financial literacy content on its website. Today, there is a substantial volume of literature available on the RBI website in 13 languages including English and Hindi to create awareness on financial education for stakeholders to download and use.

The National Strategy for Financial Education also emphasizes the importance of empowering the younger generation with essential money management skills. In keeping with this, RBI through the National Centre for Financial Education³ been promoting financial literacy among students through various initiatives and programs such as integrating financial education in the school curriculum for classes VI to X. The National Financial Literacy Assessment Test of NCFE is globally one of the largest free annual financial literacy tests for school students⁴.

Last year we conducted an All-India Quiz on Financial Literacy for students of Class VIII, IX and X of Government/Municipal Schools, in which more than one lakh students from nearly 52,000 schools participated. We are also planning for an All-India quiz for college students later this year as part of RBI's 90th year celebrations.

RBI has been observing Financial Literacy Week every year since 2016 with a view to disseminating financial education messages on various important and relevant themes to the public. This year, Financial Literacy Week was observed between February 26

and March 1, on the theme viz. Make a Right Start, Become Financially Smart, targeting students and young adults, with a view to driving home the message that the young generation needs to be equipped with financial literacy and financial planning skills at an early stage.

More than a decade ago, in June 2012, the RBI advised Lead Banks in districts to set up Financial Literacy Centres. These Financial Literacy Centres are required to conduct financial literacy programs, workshops, and awareness campaigns to educate people about basic financial concepts, such as savings, budgeting, borrowing, and insurance, as well as more complex topics like investment strategies and retirement planning. I am happy to note that by December 31, 2023, Lead Banks had established more than 1,500 Financial Literacy Centres at district headquarters. The camps conducted by them have covered more than 30 lakh participants. In Tamil Nadu and Puducherry, the 77 Financial Literacy Centres have covered more than 1.45 lakh participants.

Apart from direct initiatives to promote awareness, the Reserve Bank also collaborates with other stakeholders to increase financial literacy. The Centres for Financial Literacy (CFL) project, initiated in 2017, is a shining example of this collaborative approach involving banks and NGOs with funding support from funds administered by NABARD and RBI. As on March 31, 2024, 2,406 CFLs have been operationalized covering blocks across the length and breadth of the country, 129 of which are in Tamil Nadu and Puducherry.

Despite good progress being made in these areas, there are still significant challenges and gaps that need to be addressed. In this context, I would like to highlight five focus areas.

Bridging the Digital Divide

As financial services increasingly move online, there is a risk of excluding those who lack access to digital technology or who are not familiar with how to use it. Bridging the digital divide is crucial for ensuring everyone can participate in the modern financial system.

By optimally using technology, we can unlock its transformative potential to advance financial inclusion. Recognizing that many individuals lack access to traditional banking services but may have access to mobile phones or other digital devices, opens a window to explore innovative digital solutions.

To bridge the digital divide, we need to have tailored digital literacy programs that cater to the specific needs and capabilities of different demographic groups. These programs can provide hands-on training on how to use digital financial services, navigate online platforms, and protect against cyber risks, thereby empowering individuals to fully participate in the digital economy.

Capacity Building

Secondly, adequate focus needs to be given to on-going capacity building of the counsellors engaged in financial literacy campaigns so that they are kept abreast of the latest and relevant information on financial products and customer protection.

The financial landscape is constantly evolving, hence it is crucial for counsellors to stay updated to be able to provide accurate and timely guidance. Organizing regular training programs and workshops can provide counsellors with opportunities to enhance their knowledge and skills. Leveraging technology, we can provide counsellors with access to online training modules, webinars, and digital resources.

Greater collaboration

The third aspect I would like to highlight is the need for greater collaboration. There should be synchronization at the ground level between different stakeholders such as Lead District Manager, District Development Manager, Block Level officials, NGOs, SHGs, BCs, Farmer's Clubs, Panchayats, village level functionaries etc. Banks running FLCs and NGOs operating CFLs need to ensure that as far as possible there is no gap in the availability of counsellors either at the FLCs or CFLs so that their activities can be conducted smoothly.

Being outcome and results oriented

Fourthly, I would like to emphasise that CFLs and FLCs should not be mere awareness hubs, but catalysts driving tangible transformation, for a substantive and enduring change. We must strive to gauge the efficacy of our efforts by quantifying outcomes such as the number of beneficiaries successfully integrated into formal financial systems as a direct result of participating in our financial awareness camps and programs.

Recognising the role of women

Lastly and most importantly, I would like to recognise the role of women in promoting financial literacy.

Women play a crucial role in budgeting within households, as they often manage day-to-day finances, make purchasing decisions, and ensure the financial well-being of their families. They are adept at effectively allocating resources to meet the diverse needs of their families. They often negotiate better with vendors and service providers to optimise the family's budget and maximize savings.

It is said that 'educate a man, you educate only one person. If you educate a woman, you educate a generation'. When women are educated and financially literate, they often serve as the primary educators within their families. Therefore, please ensure that you have programmes designed to cater to financial literacy needs of women.

Conclusion

In conclusion, it is evident that financial literacy is not just a matter of individual empowerment but a critical component of inclusive growth and societal development. Hence, it is imperative that we continue to prioritize efforts to enhance financial literacy and foster financial inclusion.

The multi-faceted approach outlined in India's National Strategy for Financial Education provides a comprehensive framework for advancing our objectives. Through targeted initiatives and partnerships, we can equip people from all walks of life with the knowledge and tools they need to make informed financial decisions and achieve greater financial well-being.

As we celebrate our achievements, bridging the digital divide, ensuring ongoing capacity building for counsellors, promoting greater collaboration among stakeholders, and recognizing the crucial role of women in promoting financial literacy are areas that require continued attention and investment.

By embracing these challenges as opportunities for innovation and collaboration, we can unlock the transformative potential of financial literacy to create a more inclusive and resilient society. Together, let us work towards a future where everyone has the knowledge, skills, and opportunities to achieve their financial goals and aspirations. Thank you.

1 <https://www.livemint.com/industry/retail/young-indian-consumers-want-to-live-in-the-moment-says-survey-11700737755534.html>

2 Organisation for Economic Cooperation and Development has defined Financial Literacy as 'A combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being

3 The National Centre for Financial Education (NCFE) is a 'not for profit' Company jointly promoted by Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India and Pension Fund Regulatory and Development Authority.

4 Source: <https://old.ncfe.org.in/NFLAT> (Last accessed on April 6, 2024).