
Financial Inclusion and Financial Literacy

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Financial Inclusion

Introduction

The world has made considerable progress in financial inclusion and access to financial services have grown significantly. However, there are challenges in bridging the remaining gap mainly on account of last mile connectivity. Besides, the challenge is to make the financial inclusion sustainable by converting access to financial services into meaningful usage of the same. Globally, there is a growing realisation that digital technology can play an effective role in plugging the remaining gaps.

2. What is Financial Inclusion?

Let us have a look at the two important definitions of financial inclusion to understand the objective, scope and approach to financial inclusion in Indian context.

As per the Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan), financial inclusion may be defined as the process of ensuring **access** to financial services and **timely and adequate credit** where needed, by **vulnerable groups** such as weaker sections and low income groups **at an affordable cost**.

As the country progressed on the path of financial inclusion the approach to financial inclusion got further refined which is reflected in the definition given by Dr. Raghuram G Rajan, former Governor RBI in his speech on “The Changing Paradigm for Financial Inclusion” on July 18, 2016. According to Dr. Rajan, Financial inclusion is about (a) the **broadening of financial services** to those people and enterprises who do not have access to financial services sector; (b) the **deepening of financial services** for those who have minimal financial services; and (c) **greater financial literacy** and **consumer protection** so that those who are offered financial products can make appropriate choices.

3. Present Status of Financial Inclusion in India

3.1 Access to financial services

As per the Global Findex Database 2017, the following are key insights on access to financial services in India

- Share of adults with a bank account - more than doubled since 2011 to 80%
- Enabling account ownership among unbanked adults through biometric identification cards was one of the important factors for the increase in the level of inclusion.
- Account ownership : trends in financial inclusion between 2014 and 2017
 - In the poorest 40 percent of households, it rose by more than 30 percentage points among women as well as among adults.
 - In the wealthiest 60 percent of households - it increased by about 20 percentage points among men and among adults.
- The launch of PMJDY in 2014 benefited the traditionally excluded groups and helped ensure inclusive growth in account ownership.

4. Digital Financial Services

4.1 Digital Financial Services – Definition

Digital financial services (DFS) can be defined as financial operations using digital technology, including electronic money, mobile financial services, online financial services, i-teller and branchless banking, whether through bank or non-bank institutions. DFS can encompass various monetary transactions such as depositing, withdrawing, sending and receiving money, as well as other financial products and services including payment, credit, saving, pensions and insurance. DFS can also include non-transactional services, such as viewing personal financial information through digital devices (G20/OECD INFE, 2017).

4.2 Expansion of Digital Financial Services in India

The Reserve Bank has over the years encouraged greater use of electronic payments so as to achieve a “less-cash” society. In recent years, a focussed effort has been made by the RBI to develop a state of the art national payments infrastructure and technology platforms, be it Immediate Payments Service (IMPS), Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), Bharat Bill Pay System (BBPS), or Aadhaar-enabled Payment System (AePS). This has changed the retail payments scenario of the country.

5. Issues and Challenges

The National Strategy on Financial Inclusion has highlighted some issues and challenges in furthering financial inclusion in India. The issues and challenges are mentioned below:

(i) **Inadequate Infrastructure:** In rural, remote and hilly areas, and Left Wing Extremism (LWE) affected areas, limited physical infrastructure and limited transport facility pose challenges in financial inclusion efforts.

(ii) **Poor tele connectivity:** The provision of financial services through information and communication technology based models is one of the effective ways of achieving financial inclusion. However, in rural, remote and hilly areas and LWE affected areas, limited tele and internet connectivity affect provision of digital financial services and operations of business correspondents.

(iii) **Convenience and Relevance:** The on-boarding procedures act as a deterrent, particularly when the financial literacy levels are low or when the products are not easy to understand. It can also happen if the products do not meet the requirements of the customers, e.g. micro entrepreneurs whose cash flows are uncertain.

(iv) **Socio-Cultural Barriers:** There are certain value system and beliefs in some sections of the population which result in lack of favourable attitude towards formal financial services. In some sections of the society women have limited freedom and choice to access financial services because of cultural barriers .

(v) **Product Usage:** As per the estimates given in World Findex Database 2017, while the gap in access to financial services in India has shrunk to 20%, almost half of account owners had an account that remained inactive in the preceding year. The usage of financial services need to be increased with enhanced adoption of digital financial services. The convergence of financial inclusion efforts with the skill development and livelihood programmes and efforts to increase financial literacy would also help in increase in usage .

(vi) **Payment Infrastructure:** There is also a need to promote innovation & competition in respect of payment products and infrastructure to accelerate digital financial inclusion.

6. Conclusion

As per the estimates given in World Findex Database 2017, while the gap in access to financial services in India has shrunk to 20%, almost half of account owners had an account that remained inactive in the preceding year. The challenge presents an opportunity to the digital financial services provider to expand the account access and enhance usage. The proliferation of digital financial services in India has helped FinTechs play an important role in financial inclusion. We shall cover the role played by non-bank entities in the next pre-read material covering the role of FinTechs in financial inclusion.

Financial Literacy

Financial literacy is crucial for imparting efficacy to financial inclusion initiatives. Financial Inclusion is an agenda at the focus of various development policy initiatives whether internationally or at the domestic front. At the domestic front, both the Reserve Bank of India and the Government of India have been constantly making efforts to provide financial education to the people in general and the specific target groups in particular.

2. Financial Literacy – definition

The definition of financial literacy and digital financial literacy would be useful in understanding the components of financial literacy and measuring the outcomes of financial literacy initiatives. The OECD/INFE (Organisation for Economic Cooperation and Development – International Network for Financial Education) has defined financial literacy as a combination of awareness, knowledge, skill, attitude, and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

3. Measuring Financial Literacy - National Financial Literacy and Inclusion Survey (2019)

The National Centre for Financial Education (NCFE), a not-for-profit company established by RBI, SEBI, IRDAI, and PFRDA ,has carried out an All India Financial Inclusion and Financial Literacy Survey in 2019 to find out the status of financial literacy in India. A sample of 75140 adults aged 18 to 79 was interviewed in 14 national/regional languages using a set of household questionnaires. A multi-stage sampling technique has been adopted for the selection of districts, block/wards, villages, households, respondents during the Survey. The survey findings have revealed that 27.18 % of the respondents have achieved minimum target score/minimum threshold score in each of the components of financial literacy prescribed by OECD-INFE [i.e. a minimum of 3 in Financial Attitude (out of 5), 6 in Financial Behaviour (out of 9) and 6 in Financial Knowledge (out of 9)] as compared to 20% in 2013. The financial literacy level among males was 29% and 21% in females. The survey also presented an assessment and evaluation of critical gaps in financial literacy as given below :

- Though there has been an improvement over the period, further efforts are needed to improve financial literacy among women
- East, Central and North Zone need more attention
- Rural India needs focused attention

- The group with lower education needs greater financial education initiatives
- The group of age '50 and above' needs more financial education

4. Financial Literacy - Institutional Framework

At the policy level, a Technical Group on Financial Inclusion and Literacy has been constituted which is a forum of all financial sector regulators under the sub-committee of the Financial Stability and Development Council. Under the aegis of the Technical Group, a National Centre for Financial Education (NCFE) has been set up to co-ordinate financial literacy activities by regulators and implement the National Strategy for Financial Education (NSFE). The Reserve Bank of India implemented the National Strategy for Financial Education during 2013-2018.

5. Financial Literacy Channels

The Reserve Bank has been taking various initiatives for financial literacy through content creation and dissemination of financial literacy through rural branches, Financial Literacy Centres of scheduled commercial banks, Moneywise Centre for Financial Literacy, and Regional offices of RBI. It also uses digital platforms like websites and kiosks and media campaigns through SMSes, Advertisements, IVR Messages. A dedicated financial education webpage has also been provided under the link <https://rbi.org.in/FinancialEducation/Home.aspx>. RBI has also initiated the celebration of Financial Literacy Week since 2017.

6. Financial Literacy Content

As regards content for financial literacy, RBI has created Financial Awareness Messages (FAME), customised content for five target specific groups viz., Farmers, School Children, Self Help Groups, Small Entrepreneurs, and Senior Citizens. Besides, NCFE, has also spread financial literacy through various initiatives, including the creation of appropriate content for various financial services. These initiatives have helped create awareness about financial services in a large segment of the population.

7. Financial Literacy - FLC & Rural branches

The Financial Literacy Centres (FLCs) and Rural Branches of banks were advised to conduct financial literacy camps. As part of the focus on digital financial literacy, banks were advised to conduct special camps through their FLCs on '**Going Digital**' through UPI and *99#

(USSD) in addition to camps for target specific groups viz., farmers, small entrepreneurs, school children, senior citizens, and SHGs.

The Financial Awareness Messages (FAME) booklet that contains 11 institution-neutral financial awareness messages were published for the benefit of the trainers and the camp participants. The rural branches of banks had been advised to conduct one camp per month covering all the messages that are part of the **FAME booklet** and the two digital platforms UPI and *99# (USSD).

The Committee on Medium-Term Path for Financial Inclusion had recommended strengthening of the FLC network through a structured “Train the Trainers” Program. Accordingly, Tier – 1 of the Capacity Building Programme on Financial Literacy was conducted at the College of Agricultural Banking, Pune for the Chief Literacy Officer, and Lead Literacy Officers of Banks and Regional Literacy Officers of the Regional Offices of RBI.

8. Centre for Financial Literacy (Moneywise)

The **Centre for Financial Literacy** (CFL) pilot project has been commissioned in nine states across 80 blocks in collaboration with the sponsor banks. Six NGOs registered with the Depositors Education and Awareness Fund (DEA Fund) viz., CRISIL Foundation, Dhan Foundation, Swadhaar FinAccess, Indian School of Micro Finance for Women (ISMW), Samarpit, and PACE Foundation have been selected to execute the pilot project in collaboration with the banks. The pilot project is executed with the objectives of active saving and good borrowing, financial planning and goal setting, going digital, and consumer protection. CFLs have been set up under a common name and logo “Moneywise Centre for Financial Literacy”. In 2019, twenty tribal blocks across the three states of Madhya Pradesh, Jharkhand, and Rajasthan were added under the CFL project.

The observations/findings of the mid-line survey conducted as part of the impact assessment of the pilot project on CFL are as under:

- a. Broader reach of the CFL programme and more substantive engagement of respondents;
- b. “Active” participation, viz., face-to-face meetings or trainings, yields better results both for financial literacy and for increasing use and uptake of products, notably savings bank accounts; and
- c. The willingness to use the grievance redressal mechanisms and faith that these grievances will be quickly and satisfactorily resolved show marginal improvements, and is

evident more specifically with those who have “active” exposure to the awareness programmes.

The survey has also suggested that financial literacy can be improved by broad-based exposure and leveraging network-based transmission of such information and knowledge. However, encouraging product use and uptake of financial products and services needs more focused, targeted, and sustained efforts with handholding for greater impact.

9. National Centre for Financial Education (NCFE)

National Centre for Financial Education (NCFE) is a Section 8 (Not for Profit) Company promoted by Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA). It works towards the promotion of Financial Education for all sections of the population as per the National Strategy for Financial Education.

NCFE engages in the creation of financial awareness through financial education campaigns across the country with the help of various institutions and organisations. It also provides training in financial education and prepares financial education material like workbooks, worksheets, literature, pamphlets, booklets, flyers, technical aids. The NCFE has prepared Audio visuals on the Financial Awareness Messages provided by RBI.

10 Way forward

10.1 Financial Literacy under NSFI (2019-24)

Since financial literacy and education are the bedrock of a vibrant financial system, it is important to make sustained efforts in this direction. The National Strategy on Financial Inclusion has recommended that the existing mechanism of SLBC/ DCC/ DLRC be leveraged and coordinated efforts are made by RBI, NABARD, NRLM resource persons, NGOs, PACS, Panchayats, SHGs, Farmers’ Clubs, etc., to promote financial literacy at grassroots levels.

Customers need to be explained about the nature of the product, its suitability to their requirements, and the cost vis-à-vis return, in a simple language.

10.2 National Strategy for Financial Education: The Reserve Bank of India implemented the National Strategy for Financial Education during 2013-2018. The National Strategy for Financial Education (NSFE) 2020-2025 document has been released by the Head of the

Technical Group on Financial Inclusion and Financial Literacy (TGFIFL) - The Deputy Governor, Reserve Bank of India (RBI) on August 20, 2020. The Strategy has recommended a '**5 C**' approach for the dissemination of financial education in the country. The strategy for 2020-25 includes an emphasis on the development of relevant **Content** in the curriculum in schools, colleges, and training establishments, developing **Capacity** among intermediaries involved in providing financial services, leveraging the positive effect of **Community**-led model for financial literacy through appropriate **Communication** strategy, and, enhancing **Collaboration** among various stakeholders.

Conclusion

Financial literacy and education have been an integral part of the financial inclusion initiatives in India. The financial literacy programmes conducted by RBI Regional Offices, FLCs, rural branches of banks, Centre for Financial Literacy, and other stakeholders have resulted in higher financial literacy levels as measured through National Financial Literacy and Inclusion Survey. The National Strategy for Financial Education outlines the approach to financial literacy from 2020 to 2025. These initiatives will be the key to achieve higher levels of financial literacy among people of the country, particularly in the underserved segments.