

Role of Central Bank (RBI) in developing financial literacy in India- A case study of MUMBAI.

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Abstract:

Financial literacy is the process by which investors improve their understanding of financial markets, products, concepts and risks. Financial literacy is important because it benefits not only the consumers, but also the financial system and the economy. Financial literacy causes consumers to behave in a particular way, and develop particular attitudes concerning money. The microeconomic benefits to the household extend out to produce macroeconomic benefits for the economy and the financial system and thus it is an important function of the central bank of any country to develop adequate financial literacy among its people. The Reserve bank of India has been actively engaged in development of various financial literacy programs in the recent years This study is motivated by the need to determine common man's ability to understand and use financial information, the impact of financial literacy programs and the role of central bank in creating more financially savvy consumers. The major objectives of this study are to study and understand the different financial literacy programs of the Reserve bank of India and to measure the effectiveness of financial literacy programs. An attempt has also been made to determine the level of financial literacy among target group and to identify the factors having an influence on financial behavior and attitude. The study has great implication for policy makers and developers of financial literacy programs .The study will be particularly useful to investors in better financial decision making and creating awareness about the importance of financial education. It will also provide a platform for future research covering the role of SEBI, government, academicians, private banks and other financial bodies in field of financial literacy.

Keywords: Financial literacy, financial market, financial resources, policy makers, investors.

INTRODUCTION

Financial literacy is the process by which investors improve their understanding of financial markets, products and risks. Through information and objective advice, they develop the skills and confidence to become more aware of financial risks and opportunities and make information choices to improve their financial position. Financial education primarily relates to personal finance, which enables individuals to take effective action to improve overall well-being and avoid distress in financial matters. Financial literacy goes beyond the provision of financial information and advice. It is the ability to know, monitor, and effectively use financial resources to enhance the well-being and economic security of oneself, one's family, and one's business.

Financial literacy: Some Definitions

Financial literacy means different things to different people, and this is reflected most clearly in the many definitions used in the literature. For some it is quite a broad concept, encompassing an understanding of economics and how household decisions are affected by economic conditions and circumstances. For others, it focuses quite narrowly on basic money management: budgeting, saving, investing and insuring According to RBI, Financial literacy can broadly be defined as "providing familiarity with and understanding of financial market products, especially rewards and risks, in order making informed choices".

The European Commission defines financial literacy as "The capability of consumers and small business owners to understand retail financial products with a view to making informed financial decisions". Rajat Nag, the Managing director General of the Asian Development Bank explains:

Financial literacy allows people to increase and better manage their earnings – and therefore better manage life events like education, illness, job loss, or retirement.

Problem to Be Studied

Financial literacy is becoming increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education and ensure an income when they retire. Of course people have always been responsible for managing their own finances on a day to day basis –spend on a holiday or save for new furniture, how much to put recent development for financial well-being. Individuals will not be able to choose the right savings or investments for themselves, and may be at risk of fraud, if they are not financially literate. But if individuals do become financially literate, they will be more likely to save and to challenge financial service providers to develop products that truly respond to their needs, and that should have positive effects on both investment levels and economic growth.

The need for better informed and financially literate consumers has been prompted by the proliferation of complex financial products in the market, the growing number of people reaching retirement, the shift towards personal responsibility to fund retirement, and the advent of electronic and internet banking. Financial products are now increasingly difficult to assess for people unfamiliar with basic financial and economic concepts, and thus the performance of financial products is almost impossible to predict in an informed way. Education is therefore needed for people to become financially literate, knowledgeable and informed. Financial literacy is important because it benefits consumers, the financial system and the economy. Financial literacy causes consumers to behave in a particular way, and develop particular attitudes concerning money. The macroeconomic benefits to the household extend out to produce macroeconomic benefits for the economy and the financial system.

Financial literacy results in financial efficiency. This refers to the use of financial products and investing without waste and unnecessary cost. Financial literacy therefore gives consumers the ability to live more efficiently, without unnecessary cost and waste. Financially literate consumers are more financially efficient. Seeking and purchasing 'better, cheaper and more appropriate products and services can drive efficiencies in the financial industry. This leads to increased competition, better quality products and greater innovation and diversity in the market. Knowledge of consumer rights and contracts also allows consumers to evaluate products more carefully and as a result demand more from suppliers. In other words financial literacy leads to financial freedom and thus the importance of financial literacy cannot be undermined.

In recent years, financial literacy has gained the attention of central bank, banking companies, government agencies, grass-roots consumer, community interest groups, and other organizations. Interested groups, including policymakers, are concerned that consumers lack a working knowledge of financial concepts and do not have the tools they need to make decisions most advantageous to their economic well-being. Such financial literacy deficiencies can affect an individual's or family's day-to-day money management and ability to save for long-term goals such as buying a home, seeking higher education, or financing retirement. Ineffective money management can result in behaviors that make consumers vulnerable to severe financial crisis.

Justification for the Study

Financial literacy has assumed greater importance in the recent years, as Financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding it increasingly difficult to make informed choices.

Literature review revealed that India is among the world's most efficient financial markets in terms of technology, regulation and systems. It also has one of the highest savings rate in the world- our gross household savings rate, which averaged 19% of gross domestic product (GDP) between 1996-97 and 199-2000, increased to about 23% in 2003-04 and has been growing ever since. While people in India prefer to save, where the savings are invested is a cause for concern. Investments by households have been more into either bank fixed deposits, risk free government-backed securities and low-yielding instruments, or in non-financial assets. A majority of our households do not use modern financial markets. As per an RBI report, only 1.4% of household savings was invested in equity, mutual funds and debentures in 2003-04. Though this went up to about 4% in 2005-06, it is still very small. Unless the common person becomes a wiser investor and is protected from wrong doings, wealth creation for the investor and the economy will remain a distant dream. We need to convert a country of savers into nation of investors.

As concern about Financial literacy has increased, so too have the number and variety of Financial literacy training programs and program providers- most of them offering comprehensive information on savings and credit, for a broad audience and others tailored to a specific group, such as students or military personnel, or focused on a specific goal, such as home ownership or saving but a very few studies have targeted the middle income group as a whole who represent a large percentage of population of any country and their financial decision making capabilities have a major impact in the country's economy. There has been significant research carried out in other countries like Australia and USA on financial literacy but there are limited studies in the Indian context. During the process of review of literature the researcher realized that though there are some studies checking the level of financial literacy in India very few studies have been conducted related to financial literacy programs and its effectiveness. It was also found that on research has been carried out on the role of Reserve bank in promoting such programs. The central bank of any country plays a very important role in developing the financial level and financial awareness of people.

Therefore, it is natural to be curious about the various campaigns and programs undertaken by RBI to promote literacy levels and also examine the impact and the reach of such programs. To pacify this curiosity, researcher decided to pursue her research work on this topic. In brief the study is motivated by the need to determine common man's ability to understand and use financial information, the impact of financial literacy programs in helping them take better financial decisions and the role of central bank in creating more financially savvy consumer.

Theoretical Principles involved:

Organization for Economic Co-operation and Development (OECD) has defined financial education as “The process by which financial consumers/ investors improve their understanding of financial products concepts and risks, and through information, instruction and/or objective advice, develop the skills and confidence to become more aware of Financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective action to improve their financial well-being. Thus, financial literacy is the ability to know, monitor, and effectively use Financial resources to enhance the well-being and economic security of oneself, one’s family, and one’s business.

The main findings of a survey of 1,003 Americans conducted by Princeton Survey Research Associates International (PSRAI) on behalf of the National Foundation for Credit Counseling, Inc. (NFCC) was the only a minority keep close track of expenses, More get financial education at home than school and less than half check their credit history. The purpose of the survey was to establish a benchmark survey that identifies what Americans know about their finances and how receptive they are to professional financial advice and education. When asked what kind of setting would suit them best when learning about financial issues, one third of the public prefer a one-on-one approach. There are a range of incentives that people say would motivate them to learn more about financial issues, such as reduced insurance on a car or home, reduced mortgage points, a free savings or checking account, reduced interest on credit card and reduced interest on a loan. Focusing on imparting financial education to the people of the country, the Reserve Bank of India (RBI) has organized financial outreach camps in some of the remote villages of India. RBI launched the second phase of its outreach camps in the northeast.

Addressing a public meeting at Changki village in Mokokchung district in Nagaland on Wednesday, the excretive director of RBI, VS Das said, “RBI has been taking up several programmes to financially educate people in the rural areas of the country since its platinum jubilee celebrations in 2009-10. It has already organized outreach camps that focus on the importance of financial literacy for financial inclusion in 218 villages across the country so far.”

In RBI- OECD workshop on delivering financial literacy: challenges, strategies and instruments march 2010, Finance minister Dr. Pranab Mukherjee underlined that fact half of Indian population has no bank account and just over half of work’s adult population do not use formal financial services to save or borrow. He also underlined that while there is no nationwide financial literacy programme in India, an increasing number of broad and far reaching institutions- specific projects are developed such as the comprehensive one developed by the Reserve Bank of India, or the more recent one launched by the Securities and Exchange Board of India, or other self- regulatory organizations

(Indian Banks Associations, Banking Code and Standards Board of India). Dr. Duvviri Subbarao then underlined the importance of robust consumers’ financial skills for the development of sound financial services market and of the Indian economy as a whole.

HYPOTHESIS

There are different factors having an influence on the financial literacy of individuals and the financial literacy programs need to take into consideration these factors to be effective and design its program accordingly. The present study is based on the following hypotheses:

- Level of financial literacy is not affected by age
- Level of financial literacy is not affected by income level
- Level of financial literacy is not affected by gender qualifications
- Effectiveness of financial literacy programs is not affected by age
- Effectiveness of financial literacy programs is not affected by income level
- Effectiveness of financial literacy programs is not affected by gender
- Effectiveness of financial literacy programs is not affected by educational qualifications
- There is no relation between level of financial literacy and awareness of financial literacy programs.

OBJECTIVES

- To study and understand the different financial literacy programs of the Reserve bank of India
- To determine the level of financial literacy among target group
- To identify the factors having an influence on the level of financial literacy
- To measure the effectiveness of financial literacy programs
- To suggest ways for improving the impact and reach of financial literacy programs

RESEARCH APPROACH & METHODOLOGY

The research will be exploratory in nature as it is a new and a developing topic, particularly in India. Adequate flexibility will be provided for considering the different aspects of the problem. Data will be collected through survey method.

Sample size

General public 800-1000

Managers- 50 (which constitutes 70-80% of people dealing with financial literacy program in RBI, Mumbai)

Sampling unit

Will consist of individuals living in Mumbai and Navi Mumbai.

Sampling technique

Stratified sampling will be used to cover people of different gender, age groups, income levels, different educational background and different investment levels.

Research tools Chi square will be used to test the hypothesis and determine the impact of age, income level, educational background and gender on the level of financial literacy and the awareness of financial literacy programs, It will also be used to see if these factors play a significant role in determining the effectiveness of financial literacy programs Factor analysis will be used to determine the factors important in deciding the effectiveness of financial literacy programs.

DATA INFORMATION

Primary data

The study intends to collect primary data using questionnaire and in depth interview. Questionnaire will be developed with the help of pilot study and focus group.

Sources of primary data

There will be two sets of questionnaire one for the general public and another for the managers of reserve bank engaged in development and implementation of financial literacy programs. The first questionnaire for will be divided suitably to cover the demographic details, the level of financial education among people of Mumbai factors having an influence on financial literacy, awareness about financial literacy programs and the impact of such programs .Effectiveness of the programs will be measured by suitable questions on a 7 point liker scale . The second questionnaire will be suitably divided to get an insight into the different financial literacy programs and the problems faced while implementing the programs. The questionnaire for general public will be closed ended questionnaire the questionnaire for managers will consist of open ended as well as close ended questions. "the population from which a sample was selected, consisted of common people in Mumbai and Navi Mumbai

Sources of Secondary data

The secondary data will be collected by extensive literature review, publications and press release of reserve bank, through study of the topic from previous studies, news papers, journals and the internet

Limitations

This study assumes that all information gathered for this research project is accurate. The study also assumes that participants will be truthful and honest in their responses but understands is that there is an emotional issue often associated with money discussions that sometimes causes participants to be guarded in their responses. Another limitation of this study is the narrow geographical sample of participants filling out the survey.

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