

## **Financial literacy for all**

***To become a nation of investors, we need nothing less than a national-level financial literacy mission***

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India has one of the world's most efficient financial markets in terms of technology and systems. Significantly, India also has one of the highest savings rate in the world -- our gross household savings rate, which averaged 19 per cent of GDP during 1996-97 to 1999-2000, increased to about 23 per cent in 2003-04.

Missing out

While Indians, as a whole, are saving more, where they are investing these savings is a cause for concern. Investments by households have increasingly moved either to risk-free, government-backed, fixed-return, low-yielding instruments or in non-financial assets. As per an RBI report, only 1.4 per cent of household savings was invested in equity and debentures in 2003-04, way down from a high of 23.3 per cent in 1991-92. It's also alarming that in a country with one billion people, just seven million -- less than 1 per cent -- are invested in stocks. Unless the common person becomes a wiser investor, and is protected from wrongdoings, wealth creation for the investor and the economy will remain a distant dream. We need to convert a nation of savers into a nation of investors.

A majority are not using modern financial markets. Even among those who are, most are not doing it well. Low knowledge among households of financial markets, concepts and products has a direct impact on mass-scale utilisation of financial markets. Financial literacy also plays a significant role in efficient allocation of household savings and the ability of individuals to meet their financial goals. Participation in modern finance throws up a number of questions and choices for households. Some of these questions are:

- How much do you need to save to meet all your financial goals?
- How should you allocate your savings across various products?
- How should your allocation change with age and circumstances?
- On what basis should you select a fund manager, insurance company, bank or lender?
- What are the channels through which financial services are provided? Which one should you use?

Such questions and choices may appear daunting to urban audiences. They would be outright intimidating to those in rural areas, where most of India's population is. When it comes to financial solutions, investors tend to use thumb rules or seek advice from friends and relatives, which are often poor approximations compared to those that follow from a scientific analysis. If they get bad advice, their outcomes will be poor, and they will start to lose faith in the financial sector. They will tend to make bad choices, contribute insufficiently, begin saving late, stay away from modern finance, or fall prey to fraud or mis-selling. History shows that most investors allow others to destroy their wealth.

### **Financial empowerment**

A big improvement of financial knowledge of households is necessary so that they participate continuously in financial markets. Individuals, of course, are unlikely to participate unless they feel confident about it. Two things need to happen to change this mindset. One, we have to ensure quality products and services, reduce market manipulation and mete out swift and tough punishment to offenders.

Two, individuals need to be empowered so that they can make informed decisions by themselves, and choose the right fund managers and products. Special programmes need to be initiated--for example, financial education can start right at the school level, while modules may be developed for, say, housewives and retired.

Several efforts have been made in the past, but with little success. Imparting financial knowledge to people is a public good and the private sector alone will not have adequate incentives to provide financial literacy. Each vendor will also worry that if he spends money on training customers, the customers will be disloyal. The government, regulators and the financial services industry need to come together to initiate action to improve financial literacy and deliver accurate information in simple formats.

The alarming investment numbers mandate we move on a war footing. Nothing short of a national level financial literacy mission would be required if we need our economy to grow with the participation of our citizens' savings. The Investor Education and Protection Fund (IEPF) of the Ministry of Company Affairs is the ideal catalyst for this effort. It has initiated a wide spectrum of actions focusing on financial literacy issues, but the scope of this has to be expanded substantially -- and soon.