

Financial Literacy for Financial Inclusion

What is the issue?

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- Pradhan Mantri Jan Dhan Yojana (PMJDY) has ensured universal access to a bank account a near reality.

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- But the level of usage of accounts remains quite low, which calls for ensuring financial literacy.

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What are the concerns with financial inclusion?

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- India's flagship financial inclusion programme PMJDY has ensured universal access to bank account.

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- India now has 180 billion accounts. But 48% of the bank accounts have seen no transactions in the last one year.

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- Insurance providers push products without adequately assessing the consistency in income streams of the buyers.

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- In view of the lack of proper awareness, people buy insurance policies without adequate planning and give up midway.

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- Consumers who cannot comprehend basic financial concepts often end up paying higher transaction fees.

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- They pile up unmanageable debts and end up paying higher interest on loans, which can mean more harm to the poor.

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- So financial literacy is crucial for making successful use of financial services and enabling people to make right financial choices.

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What is financial literacy?

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 - It refers to a set of skills that allow people to manage their money wisely, with understanding of essential financial concepts.
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 - The OECD has a working definition of financial literacy -
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 - it is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well being
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 - Building on OECD's global paradigm, India's National Strategy for Financial Education (NSFE) aims -

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 - i. to spread awareness about basic financial products in order to link new users to the formal financial sector
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 - ii. to educate existing users of financial products and services to make informed choices
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 - iii. to ensure consumer protection for all the users

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 - It is expected to impart the means to transform ordinary individuals into informed and questioning users of financial services.

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What should be done?

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 - Individuals should be imparted skills and knowledge as well as the ability to put these into practice through their attitudes and self-efficacy.
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 - A basic financial education must comprise -

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- i. an understanding of financial planning
- ii. debt management investing
- iii. mechanics of interest rates and investment diversification

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- People must be trained in smart spending -

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- i. prioritising needs over wants
- ii. using credit card wisely
- iii. avoiding waste, funding expenses from savings and not loans
- iv. understanding terms of EMI (equated monthly instalments) before buying on EMI

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- Government must thus take into account that the right measure of financial inclusion is not access, but regular usage.

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Source: BusinessLine

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