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Targeting Financial Education Campaigns To Vulnerable Groups

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Presentation Contents

- Background
- Questions and Choices for Households
- Need for Financial Education and Information Dissemination
- Government's Role
- Specific Actions
- Recent Survey Findings
- Policy Response

Background

- Key role of financial savings and financial markets in economic development
- Higher growth rate and expectation pose major challenges for India's financial sector
- Growing integration of domestic economy and financial system with the global economy and global financial system
- Paradox of high savings and efficient financial markets and negligible allocation of household wealth into marketable financial assets

Background

- Time consistent and comparable hard data on behavioural patterns of household savings by asset classes not available
- A clear preference for fixed income instruments and relatively less appetite for risk
- Direct impact of financial illiteracy on mass utilization of financial markets
- Importance for efficient allocation of savings from both individuals and nation's perspective

Questions and Choices for Households

- Saving allocation over time
- Savings allocation across alternative products
- Basis for selection of financial instruments
- Alternative channels for service, delivery and choice
- Adequacy of old age income security
- Choice of different annuities

Need for Financial Education and Information Dissemination

- The questions and choices appear daunting to urban audiences and more challenging in rural areas
- Poor choices and poor incomes will be a major hurdle for the mass scale adoption of financial markets
- Tremendous human capital required for financial planning to contribute to the national wealth and avoid fraud or mis-selling
- Investor participation in financial markets is built on trust

Need for Financial Education.....

- Greater confidence can be achieved with better information about financial markets
- Hence the need for public education and mass awareness regarding financial markets
- Financial literacy is not the key focus for the regulators, markets or the Government
- Therefore, ample need and scope for improving financial knowledge

Government's Role

- A classic case of externalities and “public good” character and inadequate allocation of resources by markets
- Government has a role in investor awareness and education
- Two recent initiatives by the Government,
 - i. setting up of investor protection fund and
 - ii. sponsoring national survey on savings and investment behaviour
- The mass scale delivery of financial service depends on behavioural patterns of households

Specific Actions

- Research and analysis of income, saving and investment patterns
- Evaluation of efforts and outcomes of global efforts on financial education and investor protection and drawing lessons for India
- Analysing current financial literacy and education efforts to build broad based financial literacy community

Specific Actions

- Initiating an annual conference on savings, financial literacy and investor behaviour to discuss public policy, industry action and regulator interventions
- Hosting a series of workshops and seminars targeting stakeholders
- Undertaking a periodic, national survey on income, savings and knowledge attitudes, confidence and preferences of financial instruments
- Developing and testing ideas on financial literacy for mass scale implementation

Recent Survey Findings

- A recent survey of saving and investment behaviour indicates disintegrating family support to old age income security and classic ‘myopia’
- The survey indicates low level of ‘financial literacy’ among vulnerable sections
- Investment in financial literacy can give commensurately higher returns
- The dis-savers comprise the majority of poor agricultural and daily wage workers

Recent Survey Findings...

- 40% of savers with modest incomes (less than Rs.25000) manage to save between 10-50% of income on par with all earners
- The high saving rate is combined with cautious borrowing and negligible debt portfolios
- There is little awareness about financial products or time value of money
- The issue is, therefore, not to focus on incentives to promote households savings, but to direct them to appropriate asset classes

Policy Response

- The survey has indicated a felt need for defined contribution based pension schemes for a sizable population. The challenge is to identify them and provide cover
- The evidence of financial literacy has deep and profound implications in designing pension reforms in India
- The pension reform design recognises that too much choice is not a 'true' choice and simplicity has its virtues

Policy Response

- The focus is on fighting hard on fees, charges and total cost of pension provision and a simple menu of investment choices
- The challenges of coverage of financial illiterate population are immense
- The Government, the regulators and the industry have to apportion their responsibilities

Thank You