



# Impact of Financial Education on Economic Development: Indian Experience

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1

## Outline

- Financial Education and Economic Development
- Financial Education - Indian Experience
- Strategy for improving financial education
- Issues and challenges
- summary

2

## Financial Education and Economic Development

- Enhancement of aggregate household savings
  - India's savings rate is 29.1% of GDP
- Decline in cost of capital
- Role of financial education in changing behaviour
- Allocating savings into productive assets
  - India is largest importer and consumer of Gold
  - In the last 25 years in India, return on gold was 54 times whereas equity market gave 129 times return.

3

## Financial Savings of household ( in %)

Year	Bank deposits	Life Insurance funds	Provident and pension funds	Shares
1990-91	32	10	19	8
1995-96	32	11	18	7
2000-01	38	14	19	4
2005-06	47	14	10	5

4

## Financial Education-Indian Experience

5

## Financial Education- Indian Experience

- Nearly a quarter of India's earning population do not by themselves save any money in formal or traditional financial instruments.
- Overall, the most repeated reason for saving was for the security of the family (55.4%) followed by fulfilling education requirements (42.6%), marriage of children (36.6%) and finally, old age security (31.5%)
- Nearly 72% of the respondents did not consult anybody. Those who did usually went to their friends/peer groups (17.2%).

( Source ADB Survey 2004: An All India Survey having sample size of 41940 -both urban and rural)

6

## Financial Education- Indian Experience

- 58% of the respondents save in saving bank accounts . 6% had a fixed deposit while 11% had a recurrent deposit.
- Majority banked with public sector institutions including Post Office banks and Cooperative banks
- Overall, penetration of private banks (domestic or foreign) among sample respondents was only 7% and 4% in urban and rural areas respectively.
- Self – help groups do enjoy greater acceptability, especially in rural India

7

## Financial Education- Indian Experience

- Over 50% aware of the current value of their investments, only 19% were aware of the current inflation rate.
- Over 50% did not have a clear idea of the concept of inflation at all.
- Over 80% of the respondents were under the false notion that government guarantees full deposits in any nationalised bank when presently, it is only up to Rs.100,000.
- 17% of the respondents had faced some sort of financial fraud in their lives.

8

## Role of Regulators

9

## Role of Regulators

- Use of retail chain to inculcate saving habits in financial instruments
- Information sharing among financial institutions
- Making available resources for financial education campaign
- Making standards for information dissemination- benchmarking it with best practices
- Encouraging role of Self Regulatory Organizations (SROs)

10

## Issues and challenges

11

## Issues and challenges

- Heterogeneous groups and geographical spread/reach
- Segmentation of potential savers and investors
- Generic education Vs. product selling
- Conflict of interest: Role of financial advisers
- Standardization Vs. customization
- Costs
- Effectiveness of Financial Education campaign

12

## Summary

- Financial education is important to make changes in savings behaviour
- Every country needs different strategy- role of financial intermediaries have to fit into those strategy
- Indian financial institutions and Regulators are fully geared to convert the huge challenge into opportunity

13



THANK YOU

14