FINANCIAL LITERACY FOR POOR AND VULNERABLE GROUP

By Jayshree Vyas
Managing Director
SHREE MAHILA SEWA SAHAKARI BANK LTD.

PRESENTED AT:
SEBI- OECD INTERNATIONAL CONFERENCE ON INVESTOR EDUCATION
3-4 FEBRUARY, 2012 IN GOA, INDIA.
A) LEARNINGS:

Learning's from experience of last fifteen years in providing Financial Literacy services to economically active poor across Country.

This Group is mainly representing Informal Sector Workers, poor and excluded population, which is normally dependent on exploitative Informal Financial Service Providers.
NEED TO UNDERSTAND FINANCIAL BEHAVIOUR

a) Living and thinking on day to day basis.
b) Making Impulsive Financial decisions.
c) Using only Credit for all kinds of Life cycle needs.
d) Dealing with cash not managing finance

Learnings:
(i) First step is to build awareness about importance of Planning or thinking about future.
(ii) Using sustainable tools e.g. Film of Ant and Grasshopper.
LIFE CYCLE NEEDS APPROACH

Life Cycle events:
- House, Clothing & Food
- Marriage of Children
- Maternity
- Education for Children
- Buy Business Equipments
- Rescue mortgaged pledged assets Repay old debts
- Buy new house
- Accident
- Pilgrimage
- Working Capital
- Festivals
- Loss in floods, riots, cyclone
- Extend House
- Death
DESIGNING FINANCIAL LITERACY MODULES BASED ON VARIOUS FINANCIAL “CONCEPTS”

a) Concept of “Importance of Financial Planning”
b) Importance of “Saving”- Build your own Capital
   • Concept of “Power of Compounding”
   • Concept of “Importance of Small, regular saving”
   • Concept of “Purposewise Saving” links with Life Cycle Needs;
   • Concept of “Earlier the better”

**Tools**: Financial Tables
If you save 10 Rs. Daily on regular base

<table>
<thead>
<tr>
<th>AMOUNT</th>
<th>5 YEARS</th>
<th>10 YEARS</th>
<th>15 YEARS</th>
<th>20 YEARS</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 RS.</td>
<td>24,510</td>
<td>64,000</td>
<td>1,27,560</td>
<td>2,29,940</td>
</tr>
<tr>
<td>20 RS.</td>
<td>49,020</td>
<td>1,28,000</td>
<td>2,44,120</td>
<td>4,49,900</td>
</tr>
<tr>
<td>30 RS.</td>
<td>73,530</td>
<td>1,92,000</td>
<td>3,82,680</td>
<td>6,89,860</td>
</tr>
<tr>
<td>40 RS.</td>
<td>98,040</td>
<td>2,46,000</td>
<td>4,10,240</td>
<td>9,19,800</td>
</tr>
<tr>
<td>50 RS.</td>
<td>1,22,550</td>
<td>3,20,000</td>
<td>6,37,800</td>
<td>11,49,750</td>
</tr>
</tbody>
</table>
EARLIER THE BETTER- START EARLY FOR FINANCIAL SECURITY
CONCEPT OF “AVOIDABLE” AND “UNAVOIDABLE” EXPENSES

“AVOIDABLE” EXPENSES

Smoke, chew tobacco and eat paan for 2 minutes of joy and get a lifetime of bad health.
CONCEPT OF “AVOIDABLE” AND “UNAVOIDABLE” EXPENSES

“UNAVOIDABLE” EXPENSES
BORROWING

• Productive use V/s. unproductive use of Borrowed Money
• “Terms of Borrowing”
• Method of Interest Calculations- Flat Interest V/s. Reducing Balance Method
• **Tools**: - Video
  - Comparative Calculation under two methods of Interest Calculation.
INSURANCE

• Think about future – Probable Risks
• Plan for Risks
• Difference between “Saving”, “Credit” and “Insurance”

Linking all three services for Planning Life Cycle Needs”

• **Tools**: - Video
  - Posters
**CONCEPT OF “FUNGIBILITY OF MONEY”**

- Give colours to currency for different types of sources and used of Money”
- “Money is what Money does”

**Tools**: Different colour of Traffic Signal

<table>
<thead>
<tr>
<th>Salary or Wages</th>
<th>Borrowing</th>
<th>Interest Income</th>
<th>Gift</th>
<th>Sale of Asset</th>
<th>Sales Receipts</th>
<th>Profit of Business</th>
<th>Rent Receipt</th>
</tr>
</thead>
</table>
INVESTMENT

- Investment is part of Planning
- “Make your Money work for you”
- “Investment is one’s earning son”
- “Active Income V/s. Passive Income”
- “Investment gives Future Security”

**Tools**: - Video
- Financial Calculations
- Story
RETIREMENT

- Concept of “Old Age Financial Security”

**Tools:**
- Video
- Calculations

**Regular v/s Irregular Savings**

![Bar Graph showing comparison between Regular and Irregular Savings]
B) LINKING WITH SUITABLE FINANCIAL SERVICES- AND PROVIDING INFORMATION/KNOWLEDGE ABOUT AVAILABLE SERVICES

- Understanding of Concepts will help them to select available financial product. E.g. Pension Saving Product for “Retirement”, Health Insurance for future “Sickness” and Loan for meeting Business Loans.
- For Providers of service, it will be easier to market Product- Linking with Concept.
- “Concepts” can also facilitate to design appropriate Financial Products for the poor. E.g. Pension Product for the Poor.

C) FINANCIAL LITERACY FOR OPERATIONAL METHOD FOR AVAILING FINANCIAL SERVICES. THIS INCLUDES TECHNOLOGY.
D) METHODOLOGY FOR PROVIDING FINANCIAL LITERACY TO POOR:

a) Financial Campaigns/ Camps/ Moholla Trainings

b) Building a cadre of Financial Literacy Trainers or Counsellors through conducting “Training of Trainers” courses.

c) Individual counselling through counsellors.

d) Mass Media Campaign.
FINANCIAL CAMPS/ CAMPAIGNS/ TOT PICTURES
E) NEED APPROPRIATE TOOLS:

Majority of poor are illiterate.

Appropriate tools are:

- Videos
- Games
- Role Play- Street Play
- Stories
- Calculations
F) IMPACT:

- Very Positive response of the poor.
- Change in Behaviour
  a) Start thinking about future financial needs
  b) Think before spending or borrowing
  c) Reduction in “Avoidable” Expenses
  d) Increase in “Saving” (If facility is available)
  e) Have joined in Pension Scheme
  f) Converted Short term saving in long term saving.
  g) Bought Insurance Product
F) CHALLENGES:

- Changing people’s mindset is a long term process
- Financial sustainability of Financial Literacy Programme
  - In short term, it can not be financially sustainable but,
  - In long term, it can be financially sustainable.
    - For Financial services providers by increasing volume of business
    - For Financial Literacy providers by charging fees from clients.
- Non availability of suitable financial products in Market.
F) CONCLUSION

• Need to spread “Financial Literacy Movement for the Poor”

• Poor have proved to be “Good Micro-Borrowers all over the World”.

  They have proved to be a good “Micro-Savers” and good “Micro-Insurees” wherever such services are provided.

  They can be good “Micro Investors” if such opportunity is given to them.

  In the long run, “Financial Literacy Movement “ can increase country’s Saving & Investment Rate.
THANK YOU