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Role and Contribution of RBI in Financial Literacy

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1.0 Introduction:

Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions. Financial inclusion takes into account the participation of vulnerable groups such as weaker sections of the society and low income groups, based on the extent of their access to financial services such as savings and payment account, credit insurance, pensions etc. Also the objective of financial inclusion exercise is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risks, etc. by the rural individuals and firms.

According to the Planning Commission (2009), financial inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products. The household access to financial services includes access to contingency planning, credit and wealth creation. Access to contingency planning would help for future savings such as retirement savings, buffer savings and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to wealth creation includes savings and investment based on household's level of financial literacy and risk perception.

According to Chakraborty (2011),financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

To sensitise financially illiterate people, financial literacy programmes have been initiatedby the Reserve Bank in collaboration with commercial banks. Opening multiple channels ofcredit delivery is expected to improve access to institutional credit for excluded people who, in turn, may help bring them within the ambit of the growth process. Building financial capability through financial literacy is a key component of financial inclusion. It means providing financial education so that individuals can identify and use appropriate financial products and services in order to build and preserve their assets over time. There is expectation of making people better informed, better educated and more confident, able to take greater responsibility for their financial affairs and able to play a more active role in the market for financial services.

Financial Literacy is essential for improving quality of life It is specifically expected that someone should know to manage his/her personal finance effectively. Financial literacy is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others. The absence of financial literacy can lead to making poor financial decisions that can have adverse effects on the financial health of an individual. Financial literacy is having the knowledge, skills and confidence to make responsible financial decisions.Management of own fund and utilization of the surplus Funds earned by an individualthrough formal financial system is the basic need for the sustainable development of the economy, for which financial literacy is vital. Financial literacy often entail the knowledge of properly making decision pertaining to certain personal finance like banking, insurance, investing saving and retirement. It also involves intimate knowledge of financial concepts relating to day to day life of an individual. Currently, there is no standard system to provide financial literacy to the population in general. Improving financial literacy can have significant benefits for everyone, no matter what their age or income. By developing confidence, knowledge and skills to manage financial products and services, individuals will be better able to overcome or avoid financial exclusion. Such exclusion impacts on the opportunities individuals can pursue their sense of security and their overall emotional and physical wellbeing. Improved financial literacy can increase economic participation and social inclusion, drive competition and market efficiency in the financial services sector, and potentially reduce regulatory intervention.

Since 2005, the Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase financial inclusion. Measures such as SHG-bank linkage program, use of business facilitators and correspondents, easing of Know Your Customer (KYC) norms, electronic benefit transfer, separate plan for urban financial inclusion, use of mobile technology, bank branches and ATMs, opening and encouraging 'no-frill-accounts' and emphasis on financial literacy have played a significant role forincreasing the use of formal sources for availing loan/ credit. Measures initiated by the government include, opening customer service centres, credit counselling centres, Kisan Credit Card, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhar Scheme. These renewed efforts are more focused than the earlier measures which were more general in nature having a much wider scope. Though the measures were initiated earlier, their impact on the rural population needs to be analysed and reframed in order to understand the present scenario in the rural areas.

2.0 Objectives of the Study:

1. To study role of RBI in financial literacy
2. To study performance of RBI in financial literacy
3. To overview financial awareness policy of RBI
4.

3.0 Research Methodology of the study:

This study is purely depending on secondary data. Data is collected from various reference books, research articles, reports and websites. For analysis researcher used descriptive and analytical research methods.

4.0 Role and Contribution of RBI in Financial Literacy:

Financial literacy is crucial for imparting efficacy to financial inclusion initiatives of the RBI. The RBI has adopted a planned, structured, and integrated approach to achieving financial inclusion through financial literacy. 718 Financial Literacy Centres (FLCs) have been set up as at the end of March 2013. A total of 2.2 million people have been educated through indoor education to walk in persons and through outdoor activities such as awareness camps, ghostis, seminars and lectures in a one year period from April 2012 to March 2013. It has advised all FLCs and rural branches of scheduled commercial banks to conduct a minimum of one outdoor financial literacy camp every month, to link the financially excluded segment with the banking system. The RBI has designed a Model Architecture for conducting the literacy camps, which deals the operational modalities so that it culminates in effective financial access for excluded people.The National Strategy for Financial Education (NSFE) will be implemented in a timeframe of five years and aims to establish initial contact with 500 million adults and educate them on key savings, protection and investment-related products so that they are empowered to take prudent financial decisions. It also seeks to create awareness about consumer protection and grievance redressal mechanisms available in the country.

As at end March 2015, 1181 FLCs were operational in the country, up from 942 as at end March 2014. During the period April 2014 to March 2015, financial literacy camps were conducted by 32509 rural branches of banks and 1.4 million and 5.7 million participants opened accounts in the camps organised by the FLCs and rural branches of banks, respectively. In order to explore innovative and participatory approaches to financial literacy, a block level CFL project was initiated in 2017 by the RBI across 80 blocks in 9 states. The project is currently being implemented by 6 NGOs in collaboration with 10 sponsor banks. To create awareness at a large scale on key topics every year, the RBI had decided to observe one week in a year as "Financial Literacy Week" starting from 2017. As at end March 2018, 1395 FLCs were operational in the country. During the year ended March 2018, 129280 financial literacy related activities were conducted by the FLCs as against 96315 activities during the preceding year.

i) Financial literacy for Farmers:

The Kisan Credit Card Scheme aims at providing timely and adequate credit to farmers to meet their needs at the time of crop production (cultivation expenses), besides meeting contingency expenses. It also covers expenses related to ancillary activities through simplified procedures in obtaining loans as and when needed.While 10 per cent of the short-term limit under KCC can be used for household consumption purposes, it is advisable not to divert more funds for consumption expenditure. A 4 per cent rate of interest for short-term crop loans up to Rs. 3 lakhs during 2017–18 (Interest Subvention Schemes as announced by the Government of India from time to time)*. Even when you have a good harvest, the job is only half done. You need to sell your produce at good prices. If you feel you are not getting a fair price, store your produce in warehouses against warehouse receipts.# You will get financing from the bank for your immediate cash needs—the benefit of interest subvention will be available to small and marginal farmers having a Kisan Credit Card (KCC). This will be for a further period of up to six months post-harvest and at a rate of 7 per cent* against negotiable warehouse receipts for keeping their produce in warehouses.PradhanMantriFasalBimaYojana (PMFBY) provides a comprehensive insurance cover against crop failure, thus helping in stabilising the income of farmers and encouraging them to adopt innovative practices.Once the central/state Government has declared your area as affected by a natural calamity (e.g., cyclone, drought, earthquake, fire, flood, tsunami, hailstorm, landslide, avalanche, cloud burst, pest attack and cold wave/frost), and if the crop loss is assessed to be 33 per cent or more, it is imperative that you approach the branch of your bank that has provided you the loan, as your repaying capacity gets impaired due to the damage caused by the natural calamity.

ii) Financial literacy for Entrepreneurs:

Non-farm entrepreneurs can obtain credit facilities for both working capital and term loan requirements by getting a General Credit Card (GCC) from the bank. The Banking Codes and Standards Board of India (BCSBI) has prescribed timelines for disposal of loan applications that are complete in all respects and are accompanied by documents as per the 'checklist' provided. The banks which are members of the BCSBI have to adhere to the following:

a. MSE loan application for a credit limit or enhancement in the existing credit limit of up to Rs. 5 lakhs: 2 weeks

b. For credit limit above Rs. 5 lakhs and up to Rs 25 lakhs: 3 weeks

The Code does not replace or supersede regulatory or supervisory instructions issued by the Reserve Bank of India (RBI) and banks will comply with such instructions/directions issued by the RBI from time to time. In business, it is often necessary to provide credit, which means to accept payments from customers on a future date as per agreement. When that happens, there is not enough money to buy supplies for the next day and pay for other obligations like rent and wages. The payments that are to be received at a later date as per agreement are called receivables and the customer who is expected to pay at a later date is called a debtor.In such a situation, when money from sales is delayed, business need not stop for want of funds. The vegetable seller can go to the bank and request lending against receivables. The bank provides finance against the amount of receivables after reduction of margin. Interest on the loan is charged only on the outstanding amount of the loan.Loans that are availed for a specific purpose and are to be repaid over a long period (one year and above) are called 'Term Loans'.

iii) Financial literacy for Self-Help Groups:

Suppose you have formed a Self-help Group (SHG) of 10–20 people for engaging in thrift and credit activities and you would like to now open a savings bank account for the SHG.You should be aware that the KYC verification of all the members of the SHG need not be done while opening the savings bank account of the SHG. The KYC verification of all the office-bearers would suffice. However, resolution of SHG indicating the name of office-bearers authorised to open the account on behalf of the SHG is required to be submitted.The bank may sanction your SHG, a loan based on your total corpus. Suppose your SHG has a corpus of Rs. 10,000 (in the form of cash balance with the SHG + savings account balance with bank + amount lent to members), the loan amount may vary from Rs. 10,000 to Rs. 40,000.Generally, as a member of an SHG, you would contribute a fixed amount as compulsory savings in weekly/fortnightly/monthly SHG meetings. Your capacity to earn and capacity to save would increase substantially over time and it may be different from the other members of the group. You may voluntarily contribute more than the fixed amount of savings that the other members contribute. An individual member of a group can have two savings contributions, one fixed by the group and the second voluntary.You may open an individual bank account/revive your existing individual basic savings account by depositing your surplus so that your planned expenditure in the future is met from such savings. Alternatively, you can park your surplus within the SHG itself in the form of voluntary savings over and above the compulsory savings mandated in the group.The members of the SHG shall decide the periodicity of the meetings. Such meetings should preferably be on a weekly basis but can also be on fortnightly/monthly basis, based on the convenience of the group.Full participation by all members in the group meetings will facilitate stabilisation of the group, which will start working for the benefit and satisfaction of all.Lending and borrowing is fundamentally based on trust and creditworthiness of the borrower. It is the duty of the borrower to pay back instalments on time. Delayed payment of instalments results in paying more interest, leads to bad credit history and makes future borrowing difficult on account of poor credit record/scores.A credit score is a statistically derived numeric expression of a person's creditworthiness, arrived at by credit information companies (CIC), that is used by banks to assess the likelihood that a person will repay his or her debts. A credit score is based on, among other things, a person's past credit history. It is a number between 300 and 900—the higher the number, the more creditworthy the person is deemed to be.

iv) Financial literacy for School Children:

The first step in managing money successfully is being able to differentiate between NEEDS and WANTS. As we can see from the photos above, NEEDS are a must-have, whereas WANTS are good to have. WANTS can be postponed and acquired later. When we learn to identify our WANTS and inculcate the habit of postponing those WANTS, we should be able to achieve most of our financial goals.Budgeting is the art of balancing income and expenses to ensure that expenses are always less than income. The surplus generated, if any, can be invested for future needs.An investment is like planting a tree. If monitored regularly and allowed sufficient time to grow, good returns can be expected.Traditionally, investors preferred gold, land and real estate as investment. Lately, however, the number of investors choosing financial assets like stocks or mutual funds is on the rise.The popularity of an education loan option is increasing with each passing year. More students are exploring the option of funding the cost of their higher education through education loans. Recognising the growing need for education loans, a new portal has been launched to provide not only information on education loans, but also a single-window application process to multiple banks.

v) **Financial literacy for Senior Citizens:**

There are many tools available for estate planning for senior citizens. Most important among them is what is called 'Nomination'. However, a WILL can supersede a Nomination. No need to open separate account for pension. Pension account can be transferred to another branch or different bank.Existing account can be used for receiving pension.Do remember to submit your 'Life Certificate' to your bank branch in November, every year and obtain a duly signed acknowledgement receipt of the same from the concerned bank. In case a pensioner is unable to obtain a Life Certificate on account of serious illness/incapacitation, a bank official will visit his/her residence/hospital for the purpose of obtaining the Life Certificate.'JeevanPramaan' – Digital Life Certificate using Aadhar and mobile at: www.jeevanpramaan.gov.inIt is advisable to keep a joint account with your spouse and have the nomination registered or have 'either or survivor' or 'former or survivor' operating instructions in your account.

To withdraw your fixed/term deposits prematurely in case of need, you have to ensure that you have given the bank a mandate for the same at the time of making the deposit or at any time during the tenure of the deposit.The Senior Citizen Savings Scheme (SCSS) 2004 is a very good option for retired persons. The SCSS offers an attractive rate of return and interest is paid quarterly. The interest received will be subjected to tax at applicable rates. The investment is limited to Rs.15 lakhs per person.Fixed deposits are a very good option for those who have an annual income less than Rs. 5 lakhs, since they are in the 5 per cent tax bracket. Those who have an annual income of above Rs. 5 lakhs need to pay 20 per cent/30 per cent tax on the interest income earned from fixed deposits.

5.0 Conclusion:

Thus RBI and the Government of India have been making efforts to increase financial inclusion. In this study researcher has tried to focus on role and contribution of RBI in financial literacy. RBI is publishing target group material and implementing various activities for every section of society to increase financial literacy in the country.

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