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National Strategy for Financial Education 2.0

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When it comes to creating an efficient economy, financial stability and financial literacy are the two sides of the same coin. In this context, the Government of India and the Reserve Bank of India (RBI) have begun to include both financial literacy and financial education in their development agenda. On 20 August 2020, the RBI released a revised National Strategy for Financial Education (NSFE) for 2020–25, the second one after the 2013–18 NSFE. According to the NSFE, "Financial literacy supports the pursuit of financial inclusion by empowering the customers to make informed choices leading to their financial well-being." It envisages achieving this through a "5C strategy" of content, capacity, community, communication, and collaboration for promoting financial education in the country. The aim is to develop content for schools, colleges and training establishments, develop capacity among financial services intermediaries, employ community participation through an appropriate communication strategy, and lastly, enhance collaboration among various stakeholders. The strategic objectives include skilling on financial education, encouraging savings behaviour, developing credit discipline, improved usage of digital financial services and creating awareness on avenues for grievance redressal. Encouraging entrepreneurs to avail credit from the formal financial institutions, and managing various life-stage risks through insurance cover and pension plans are the other critical objectives laid down in the new NSFE.

Financial literacy in India has consistently been low compared to other countries of the world. According to a 2014 global survey by Standard & Poor's Financial Services LLC, nearly 76% of the adult population in India does not understand even the basic financial concepts. According to the 2019 IndiaSpend report, 75% of the country's population does not have any form of life insurance. The same report quotes that an average Indian is left with only 8% of what may be required to protect their family from financial shock in case of the death of an earning member. Financial illiteracy creates a burden on the nation as it needs to spend more on creating financial security for its citizens. It also deprives the nation of its capital funds required for other activities (for example, infrastructure development).

Historically, the Indian middle-class consumer is famous for saving for future goals like buying a house, a car, or for the marriage of their children. However, the nature of most of these investments will lead to the accumulation of physical assets (for example, land, gold). The baby-boomer generation was also too cash strapped to think of any other financial investments for the future, apart from the quintessential Employees' Provident Fund (EPF)

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or the Fixed Deposits (FDs) in the bank. When it came to the millennials, they wanted to enjoy the newfound economic freedom from their saving-oriented parents. They also had (relatively) higher disposable income due to the economic prosperity of the nation following the 1991 financial reforms and the subsequent information technology (IT) boom. They are generally considered to be career-focused from the school level, and adept at securing good jobs at a young age. However, they are often clueless when it comes to managing their finances. The lack of financial literacy is often attributed to the lack of education by the earlier generation who were themselves unaware of practising financial prudence.

The government has contributed its share in increasing financial inclusion through its "JAM trinity" of Jan Dhan Yojana, Aadhaar, and providing financial services through mobile phones. However, if these initiatives are not supported through the financial literacy of the masses, they will not achieve the desired results. The NSFE move to start this education as early as Class 6 (at school level) is a move worth welcoming—a move that will inculcate this (desired) behaviour early on. It is essential to introduce the students to some of the basic concepts such as time value of money, interest, inflation and so on. At the college level, they should be aware of credit score, and diversifying investment risk by investing in various financial instruments (like FD, SIP [systematic investment plan], PPF [public provident fund]), and the need for managing life stage risk through term life insurance, health insurance, and retirement plans. The millennials who are hyperconnected should be mandatorily trained in accessing these financial services digitally.

When it comes to implementing these proposals, India faces tough challenges due to its economic disparities and complex social dynamics. On the one hand, there is a need to reach out to the lower and economically weaker sections. On the other, there are the millennials and the ever-expanding middle class. Each group requires a different approach and a unique solution. However, one thing common to both groups is the fear of taking the risk or the lack of positive information when it comes to financial investments. Since there is a tendency for negative information to flow faster than positive information, the NSFE with its positive mandate is an initiative whose time has long come.

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