# ROLE OF BANKING SECTOR IN FINANCIAL GROWTH

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***Abstract:***

***Financial education can be comprehensively defined as the process by which financial consumers /investors improve their understanding of financial products, concepts and risks and. through information, instruction and objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being". Financial education thus goes beyond the provision of financial information and advice. The focus of any discussion on financial education is primarily on the individual, who usually has limited resources and skills to appreciate the complexities of financial dealings with financial intermediaries on matters relating to personal finance on a day to day basis.***

***Keywords: Financial education, develop skills, financial information, financial products, risks and opportunities.,***

## THE CONCEPT FINANCIAL EDUCATION:

Financial education can be comprehensively defined as the process by which financial consumers/investors improve their understanding of financial products, concepts and risks and. through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being". Financial education thus goes beyond the provision of financial information and advice. The focus of any discussion on financial education is primarily on the individual, who usually has limited resources and skills to appreciate the complexities of financial dealings with financial intermediaries on matters relating to personal finance on a day to day basis.

## Role of financial education vis-a-vis financial inclusion:

- In the context of 'financial inclusion', the scope of financial education is relatively broader and it acquires greater significance since it could be an important factor in the very access of such excluded groups to finance.
- The process of educating may invariably inv olve addressing deep entrenched behavioral and psychological factors that could be major barriers. However, the complementary relationship between microftnance and financial education is obvious and financial literacy can increase the decision making power and prepare them

to cope with the financial demands of daily life.

➢ In countries with diverse social and economic profile like India, financial education is particularly relevant for people who are resource poor and who operate at the margin and are vulnerable to persistent downward financial pressures.

With no established banking relationship, the un-banked poor are pushed towards expensive alternatives, he challenges of household cash management under difficult circumstances with few resources to fall back on could be accentuated by the lack of skills or knowledge to make well informed financial decisions, financial education can help them prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.

As per an OECD study, the provision of education programmers for the under banked groups can play important roles:

- They can encourage under banked consumers to enter into or make better use of the financial mainstream.
- They can help to retain them as successful account holders in the short term
- They can contribute to keeping them as savers for the long term.
- They can contribute to asset building among households

**CHALLENGES IN DEVICING FINANCIAL EDUCATION PROGRAM**

Devising financial education initiatives for the under banked has to take into account the existing financial landscape, the social economic realities of this class and the fact that invariably, such groups are beset with low literacy levels.

**Good Money Management:** The main difference in the financial planning for the poor families is that they have fewer resources and opportunities. When people are struggling to make ends meet on a day-to-day basis, good money

Management becomes a daily challenge. While they use many creative ingenuous strategies to manage their money, these often develop through trial and error rather than by design. Financial education has a role in 'building the capacity of the poor to gain control, become proactive, use information and resources to enhance their economic security and more effectively use financial services'. When better-informed clients become better consumers of financial services, financial institutions benefit.

**Behavioral and Psychological Factors:** The process of educating may invariably involve addressing deep entrenched behavioral and psychological factors that could be major barriers. For example, in case of many of the microfinance initiatives operating on the 'group liability' concept it could be a great challenge to drive home the very basic rationale for such an arrangement, starting from inculcating the habit of small savings to appreciation of the concept of'collective responsibility'.

**Motivating Individuals:** It is also important to note that financial education may contribute to behavior modification, but many factors lend to influence a person's financial behavior. Contrary to common belief, motivation is cultivated internally and rarely can be cultivated sustainably, at least by an external factor. The biggest obstacle to financial education is motivating individuals to pursue it. In other words, financial education does not necessarily motivate individuals; motivation brings individuals to financial education Here the role of banks assumes importance as financial counselors of the clients.

**RESULTS:**

In spite of the above challenges, it should be possible to arrive at a set of basic themes/issues that could be addressed effectively through a financial education program. As per a study conducted by the under the project Financial Education for the Poor' by Microfinance Opportunities, a micro enterprise resource center, a consistent demand was found for the following broad themes of financial education:

- **Money Management:** How to proactively manage money
- **Debt Management:** How to control debt and avoid over indebtedness
- **Managing Savings:** How to save regularly and in a safe location
- **Financial Negotiations:** How to strengthen clients' bargaining position vis-a-vis input suppliers, other household members, and financial institutions.

**Analysis:** An analysis of such programs in the OECD countries reveals that many educational programmes are integrated into the provision of specific financial services, such as first or basic bank accounts, checking and savings accounts and matched-savings plans while others adopt a broad stand-alone approach, teaching budgeting, savings and credit management, etc., with no connection to any product of service. Aims tend to vary according to the majority target population.

**Indian View:** Financial education **has** an **ever** more critical role to play in the changed financial landscape of the country which, while on one hand has presented with newer opportunities for future collective growth, on the other, it has also heightened fears ol uncertainty in certain quarters mainly because of increasing multi-faceted choices and options in the management of personal finances and exposure to a gamut of risks. The issue of inclusive growth has been given top priority and in this direction, the banking sector is expected to play its part. The initiatives on financial inclusion so far, have been a small step in this direction, financial education could ideally supplement these initiatives for long term efficacy.

## DIFFICULTIES

The major hindrances in the way of delivery of financial services is the

1. **Lack of basic knowledge and lack of awareness of the products and services available from the banks:** People need information and advice when they either save their money or get into debt. Such information and guidance can best be delivered by appropriate mechanisms and if such effective mechanisms are put in place through the banks, they in turn would reinforce the demand for financial services.

2. **Difficulty or the lack of ease of addressing issues that affect a common man:** Despite concerted efforts, the current state of transparency coupled with the difficulty of consumers in identifying and understanding fine print information leads to an information asymmetry between the financial intermediary and the customer. It is important to understand that the lack of such awareness in itself amounts to risk; and the challenge is to make customers aware of the various risks. In terms of promoting financial inclusion, much of the work is simply in providing easily understood information in a safe and engaging environment.

## SCOPE OF FINANCIAL EDUCATION:

➢ Undoubtedly, there is a role for promoting financial education in the context of development policies and programs to reduce vulnerability and expand opportunities for the poor.

➢ There is a need to explore the potential for integrating financial literacy into various types of development programs: microfinance, vocational education, skills training, business development, health, and nutrition, agriculture, and food security programs.

➢ Electronic government payments have made ha\ mg a bank account essential in order to receive pa\ ments and benefits. This has made it all the more important for unbanked consumers to access information on basic bank accounts savings accounts and other financial services, financial education programs would be required to access information on financial services.

➢ In India too, improve^ technology will enable, for example. Governments to make all payments, including under various schemes electronically. Governments should now explore the possibility of direct credit to bank accounts.

➢ The use of information technology offers a lot of promise in providing financial literacy and education and experience in several parts of the country through the use of rural information kiosks, mobile vans, etc. which have shown to what extent IT can be leveraged to provide information on various products and services.

➢ Some non-banking initiatives are also being experimented in various parts of the country. In this context, the project on financial counseling service for poor self-employed women in India started by SEWA is well known. Project tomorrow, as it is called, was started in 2001 with a purpose to develop and test a financial counseling curriculum to help participants. manage money productively, plan ways to increase assets, address life cycle events, and manage risks.

**SCOPE EXTENSION:**

➢ While talking about financial education, it is important that the focus also extends to the urban populace, including the literate masses, which may not be having the financial acumen, technology suaveness and may not be ‘financially literate'.

➢ There is also need for greater awareness of various products and services offered by banks. A specific case that comes to mind pertains to the housing finance sector. RBI had also raised the issue of transparency and fairness in housing loans in the recent mid-term review of monetary policy.

➢ Though the term ‘financial education has come to be associated with individual/personal finance, a very important segment that must be brought under the ambit of such initiatives relates to small entrepreneurs and small businesses. Particularly when the effort is towards ‘inclusive growth’, it is these segments in smaller cities and towns that could really showcase the benefits of economic growth. The focus in such cases would obviously be different, with greater stress on awareness and timeliness of financial advice, instead of just education.

➢ Finally, the concept of financial education could ideally be stretched to cover economic education as well. At a broader societal level, given the path of economic reforms India has embraced since the early nineties, and the ensuing debates, it is imperative that the society and general populace be objectively informed about the fundamental economic issues and the rationale for. at-times difficult, choices to be made in this regard. This could go a long way in creating an informed and harmonious democracy. There is a need for banks and other agencies striving to extend financial education to the masses to appreciate that financial inclusion is a continuous process. Efforts to extend literacy to make the common man enabled by being aware of the evolving functional, legal and technical issues cannot be a one-time effort.

***CONCLUSION:***

A common effort of the educational programmes typically focuses on the ‘supply' side that stresses on attracting customers in the financial fold. However, what is needed is to have is an auto pilot' concept, where the prospective customer is empowered to make / demand the desired services. This could create a qualitative ‘demand’ situation of the financial services.

The objective of financial education is also customei protection. It helps customers to better understand and manage financial risk and deal with complexities of the market place anc take advantage of increased competition and choice in the financia sector. The RBI, on its part, intends to advance the cause o financial education in the country as part of an overall strategy Currently, a process of credit counseling is being encouraged t« help all borrowers, particularly those in distress, to overcom current financial problems and gain access to the structure' financial system.

However, in the ultimate analysis financial education is onl one pillar of an adequate financial policy to improve financu literacy and expand access to financial services. It ca complement, but not replace other pillars such as greatc transparency, policies on consumer protection and regulation c financial institutions.

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