FINANCIAL CAPABILITY

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ABSTRACT

The saving mentality in Indian culture is only a flowerful financial behaviour. It will become fruitful, with banking habit and access to financial products. Financial capability is the long run change in financial behaviour of going beyond the financial literacy and obtaining the competence of numeracy.

All out efforts have been taken in the Indian economy to remove the financial exclusivity; Bank nationalisation aimed at transforming class banking into mass banking. Micro credit, Self-Help Group and Business correspondence came later. Of late, Electronic Benefit Transfer, Mobile banking and Internet crowd funding are the technology-driven endeavours to reach the under banked masses.

Banks have to bank on the relationship banking practices hitherto employed by the mushrooming Non-Banking Finance Companies.

Keywords: Financial Literacy

ARTICLE

"No harm if income is narrow

If outgoings are not broad".

Is the Kural given by Thiruvalluvar about financial literacy. It is the understanding of income and expenditure of the family. It is the ability to make informed judgment about financial matters suited to one's needs. The unwillingness to save is the adverse financial literacy.

Financial literacy is a vital, essential awareness to avoid making the same financial mistakes as previous generations. The low-income households have to be educated about keeping funds for rainy day. Hedging the act of keeping cash balance to meet unforeseen contingencies may be known to the poor as "siruvadu" a small drop of saving, that many a drops make the ocean. The saving mentality or frugality is a proactive, preventative behavior to meet the transitions in life.

In practical terms, financial literacy is akin to banking habit, knowing how to open a bank account, how to deposit and withdraw money, and how to use the debit card in ATM.

The access to banking and financial services is limited by constraints such as lack of legal identity like birth certificate or other documentary proof, illiteracy, psychological, cultural barriers, cumbersome terms and conditions stipulated by banks, complicated procedure in account-filling forms and high transaction cost apart from procedural hassles.

Financial literacy is only a beginning for financial capability. The three keys to financial capability are:

- Awareness in financial literacy
- Behavioural change in financial matters
- Competence in handling financial products

Financial literacy is a short term change whereas financial capability is the long term change in behavior. Behavioral change takes place when there is an ability to govern and discipline oneself. The individual avoids spending on unnecessary items, collaborates with spousal budget, and meets unexpected expenses not by borrowing but by using own saving or insurance. The individual attains the ability to balance spending and savings, to minimize the paradox of thrift (Higher the individual saving, lower the total savings)

Competence to access financial products is the skill of numeracy leading to correct and effective financial decisions. It is the ability to shell out some income and park the fund in debt, equity and liquidity. India has one of the highest savings rate in the world. It was 19 percent of GDP in 2000, 23 percent in 2004, 32 percent in 2012. But where the savings are invested (hoarded, cornered) is a cause of concern. A majority of households do not use modern financial products. As per RBI report, only 1.4 percent of savings from households are invested in equity, mutual funds and debentures in 2003. It went up to 4 percent in 2006 and to 5percent in 2012 and it is not much. People could not make financial planning, as the price tag for real estate, gold and children's education has risen along with the increasing purchasing power.

When dematerialization of securities especially shares was introduced, India's leading depository National Securities Depository (NSDL) did a lot of road shows to push the concept of financial capability. Players in the financial services segment - be it insurance, pensions or mutual funds have a stake, selfish as it may sound - in the endeavor considering that a better informed citizen can help them grow their business.

A number of banking and non-banking financial institutions have been building up capability to become financial supermarkets, with presence in just about every activity in the financial business. The underlying focus for financial supermarket is the drawing of strength from group synergies in their diversification. Like Fast Moving Consumer Goods Super marketing, even the financial super marketing concept entails stocking of not just own-store labels but also any and every label that the consumer may demand. It believes in the fact that better accessibility means more business.

While creating access to sustainable financial services and modern financial products, the greatest challenge is to address the constraints that exclude people from full participation in the financial sector. The first phase of inclusive banking was nationalization of banks in 1969. The fruit of nationalization was not fully reaped. Later no-frills, hassle free savings bank account with diluted Know Your Customer was introduced to attract the unbanked masses.

Microcredit to the poor was granted through Swarna Jayanthi Gram Swarozgar Yojana and Swarna Jayanthi Shahari Rozgar Yojana. Self-Help-Groups (SHGs) have been formed by people, by Micro Finance Institutions and by Non-Governmental voluntary agencies, to avail loan from banking services. Another link between banks and the customers was designed to work through a Business Correspondence (BC). This is the weakest and the most muddled link. It does not seem to be moving in a solid direction.

Banks can work out innovative and profitable model to a win-win result both for beneficiaries and banks. For instance, individual agricultural farming model can be replaced by "agribusiness farming model" financing agri clinics, agribusiness consultant, and thereby financial literacy can be imparted.

The ICT – enabled smart card is the latest technology-initiative of banks, with a tie-up with technology solution provider. Biometric cards are issued in virtual baking environment; the poor villagers enjoy banking at their door steps.

Electronic Benefit Transfer (EBT) is the payment of doles given by government, directly to the bank accounts of beneficiaries avoiding middleman. Unique Identification Project (UID) or Aadhaar is to provide basic identity to the unbanked masses. The proposed universal old-age pension or social security for unorganized workers is welcome measure towards enhancing the financial capability in the economy.

The poor, who lack bank accounts, have mobile phone. Mobile phone network can cover even remote areas. It can spread formal finance to rural India. Mobile finance ecosystem has to be evolved. The potential of mobile banking deserves far more attention than it is getting from government. It could enable people to leapfrog from no connection to the global financial system to becoming productive participants.

Financial literacy is not just banking habit but communication habit. It will reach more than 60 percent Indians who do not have a bank account but has a mobile phone. Today mobile banking is a surrogate to busy schedule. It means that mobile is the preserve of the urban users with a smart phone, who is comfortable with Internet Banking. The real adoption would be when the masses urban and rural take to it.

Financial literacy has to be technology-driven and at the same time peer-to-peer philanthropic help. A new breed of micro lenders follows an internet-based funding model through "crowd-sourcing" from philanthropists. Their operating costs are half of traditional microfinance companies because they are not dependent on banks for capital and do not have a brick and mortar structure.

The crowd sourcing is a peer-to-peer approach of raising money from socially conscious individuals. Hence they could charge a lower interest rate in relation to the traditional microfinance institutions.

Varadan quit as the head banking and capital market at software services major Infosys Technologies to launch Micro Gram in 2010 by using his personal savings. He launched his website, once he had the basic capital in place, to solicit funds from anyone interested in participating micro lending venture. Micro gram is lending to Karnataka, Maharashtra, West Bengal and Tamil Nadu. Rang De, another micro lending venture head quarters in Bangalore started with an initial pool of seed capital of Rs.5 lakhs, leveraging the internet for social good reducing the gap between nonprofit and for profit ventures. The internet based peer to peer philanthropy funding model is preferable to the traditional microfinance institution model in which interest rate is exorbitant the MFI imitate money lenders rather replace them with profit driven functioning. Apart from branch expansion and mobile banking, the banks have to foster relationship banking. The Saradha chit scam points that there is an urgent need to make it easy and safe for people to invest their money in good quality financial

ISSN – 2320-0073 Volume II, July'13

institutions. The RBI instead of expressing its inability to monitor the mushrooming of non-banking finance companies can divert people towards banks by offering attractive interest for the savers.

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