UNIT 5 LINKAGE BETWEEN FINANCIAL LITERACY AND PLURAL FINANCIAL INCLUSION

STRUCTURE

5.1 INTRODUCTION: THE NEED FOR FINANCIAL INCLUSION IN INDIA

Financial inclusion is the availability of financial services at reasonable costs to lower income group of our society. Unlimited access to essential products and services is the basic requirement in any society and it is essential that the banking services offer such facilities to the common man that makes it possible for him to take care of his basic needs. The term financial inclusion needs to be interpreted in a relative dimension. Depending on the stage of development, the degree of financial inclusion differs from country to country. A fully developed country may not have this may restriction in services available to common man, however, this may differ in developing countries where the population of the lower income group is on the higher end. Its essential that the banks are more equipped with unilateral terms that makes it easier for a common man to take care of his living.

Absence of bank account also leads to security threat and loss of interest by holding cash. All these impose real costs on individuals. Long period of decreased banking services, to a large segment of the population, lead to a decrease in investment and hence leads to lowering the economy of the society. Such economy holds more social tension and imbalance among the varied segments of the society. Thus, financial inclusion is an explicit strategy for accelerated economic growth and is considered to be critical for achieving inclusive growth in the country. With this background, the present Unit explains the overview of financial exclusion, need for financial inclusion and financial literacy and the approach for financial inclusion.

5.2 OBJECTIVES

After studying this Unit, you would be able to

- Define financial inclusion and financial literacy;
- Describe the financial inclusion;
- Explain the need for financial inclusion and financial literacy;
- Write the components of financial literacy; and
- Outline the further action needed to strengthen financial inclusion.

5.3 FINANCIAL INCLUSION – AN OVERVIEW

In this section we will define and describe financial inclusion.

5.3.1 Financial Inclusion- Definition

Defining financial inclusion is considered crucial from the viewpoint of developing a conceptual framework and identifying the underlying factors that lead to low level of access to the financial system. A review of literature suggests that there is no universally accepted definition of financial inclusion. As measuring inclusion is perceived to be difficult, financial inclusion is generally defined in terms of exclusion from the financial system. Early discussion on financial exclusion was preceded by social exclusion and focussed predominantly on the issue of geographical access to financial services, in particular banking outlets (Leyshon and Thrift, 1993). However, financial exclusion is not just about physical access caused by the changing topography of financial services. Therefore, the debate has now broadened to include all types of people who make little or no use of financial services and the processes of financial exclusion (Ford and Rowlingson, 1996; Kempson and Whyley, 1998).

The definitional emphasis of financial inclusion varies across countries and geographies, depending on the level of social, economic and financial development; the structure of stake holding in the financial sector; socio-economic characteristics of the financially excluded segments; and also the extent of the recognition of the problem by authorities or governments. Broadly, financial exclusion is construed as the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion in response to discouraging experiences or perceptions of individuals/entities.

Financial services include:

1. Savings;
2. Credit;
3. Insurance; and
4. Remittance facilities etc.

Before we explain Learners may have doubts like why do we need to provide Financial Inclusion? And What financial inclusion has in store for the economy? We need keep following points in mind.

- High transactions costs of borrowers;

- High transactions costs of savers;
- High transactions costs of banks;
- High risk cost; and
- Inappropriate products.

5.4 THE NEED FOR FINANCIAL LITERACY FOR FINANCIAL INCLUSION

The present section explains the need for financial literacy.

5.4.1 The need for Financial Literacy

Financial Literacy is the key to financial freedom**.** There is a need for financial literacy as we miss this in our education system. The present education structure does not include the basics of financial inclusion and the importance of it in the current market scenario. There is a desire that someday every individual will be financial educated before he reaches his financial advisor. Being financially aware means client will understand his questions and will definitely understand the solutions. There are situations where a client is mis-sold the financial products or services for penny benefits and hence this makes it more difficult for the correct understanding of finance among the common man. And best way to avoid mis-selling is to get armored with financial literacy. This will enable that the right product reaches the right individual and which intern gets the purpose of the very product

Financial literacy is the process by which investors improve their understanding of financial markets, products, concepts and risks. Through information and objective advice, they develop the skills and confidence to become more aware of financial risks and opportunities and make informed choices to improve their financial position.

5.4.2 Extracts from Financial Literacy survey

The financial literacy survey brings following results. The survey was carried out among 5,000 consumers across ten major nations, including India, the USA, Mexico, The Netherlands, Romania, Poland, Belgium, Spain, Korea and Japan in the year 2011 by ING consumers Resourcefulness survey.

- Indians turn out to be the second out of 10 leading nations in the world to have a basic financial literacy level (55%), just behind Japan.

- The survey shows that a whopping 84% of Indians prefer buying life insurance products as compared to 54% globally.
- 87% of Indian households have an emergency fund compared to 33% globally.
- Indians borrow money only in case they have to buy a house (50 per cent) or a car (43 per cent).
- Indians do tend to get lost in sourcing good advice to become better at money handling.
- According to the survey "The more people are financially literate, the more they experience feelings of happiness".
- Overall, the survey revealed that Asians are by far the most financially literate and also eager to learn more. They actively follow their budgets and develop habits of acquiring knowledge before taking financial decisions.
- 89% of respondents — from 10 different countries — want to do a better job managing their money; 94% of Americans want to do a better job.
- 87% of Indian had emergency corpus of more than two months. Nothing new for us that most Indian have a "CASH FANCY" and they keep the cash in saving accounts, suitcases, almirahs, goolaks and even in pillow covers.

Globally, the problem is only 27% people admit that they do not know where to start to get better understanding of finance better. Others keep on postponing, do not find it interesting, do not have time or badly need help.

5.4.3 Survey in India

India is among the world's most efficient financial markets in terms of technology, regulation and systems. It also considered one of the highest savings rate in the world - our gross household savings rate, which averaged 19% of gross domestic product (GDP) between 1996-97 and 1999-2000, increased to about 23% in 2003-04 and has been growing ever since.

While savings are more in India, where the savings are invested is a cause for concern. Investments by households have been more into either bank fixed deposits, risk-free government-backed securities and low-yielding instruments, or in non-financial assets.

A majority of our households do not use modern financial markets. As per an RBI report, only 1.4% of household savings was invested in equity, mutual funds and debentures in 2003-04. Though this went up to about 4% in 2005-06, it is still very small.

Unless the common person becomes a wiser investor and is protected from wrong doings, wealth creation for the investor and the economy will remain a distant dream. We need to convert a country of savers into a nation of investors.

Participation in modern finance throws up a number of questions and choices for households like:

- Do you make household budgets?
- How much do you need to save every month to meet all your financial goals?
- How should you allocate your savings into various asset classes and among asset classes to various products?
- How should you change your asset allocation pattern with age and circumstances?
- What should be the basis of selecting a mutual fund house, insurance company, bank or lender?
- Do you know there is a need for diversification of your investments to diversify risk?
- What are the channels through which financial services are provided?

5.4.4 Need for Financial Literacy for Financial Inclusion

The majority of the working poor in India, especially those working in the informal sector like small and petty vendors, home-based workers, artisans, labourers, maid servants, desperately need financial services from formal financial institutions. The reason is that they are involved in economic activities in which they need working capital. They also need credit or term loans to buy business equipment like sewing machines or cutting machines or livestock or handlooms. There is also a need for credit for improving their huts or houses, for adding water and drainage services in their living place, or for getting electric connections .

These are all their needs for running economic activities, mainly because they are self-employed or working on their own. Because of their nature of work (mostly manual labour), poor living and working conditions, and low income level, they are very vulnerable and susceptible to many types of risks, i.e., personal risks like sickness, accident death, or natural disasters like floods, cyclone and fire. They need to be protected under these risks. They also want to build little savings for their future needs. Women want to "save for rainy days". Vulnerability during their entire working life does not allow them to build or plan for their old age.

The poor need credit, insurance, savings and pension services. Because of lack of access to these financial services from formal sector, they have to depend on informal financial sources, i.e., private money lenders. Not only these informal sources are exploitative, they provide only credit services and do not provide other financial services like savings, insurance, pensions and remittances. As a result, the poor are caught in a debt trap; they borrow at very high interest rates for all types of life-cycle needs, whether it is a business need or a personal need like sickness or accident, or a social need like marriage. If our objective is to bring these economically active poor out of the vicious cycle of poverty and help them build their own capital assets and business, we need to ensure that they get access to integrated financial services and that too from formal financial institutions at a reasonable price.

The current ‘financial inclusion’ policy has all the components that are required to ensure that poor get access to financial services. Most importantly, the policy does not talk about only credit service, but also about integrated financial services. It provides for "door-step" banking, which is needed by the poor. It talks about bank appointing business facilitators and banking correspondents. It seeks to allow the poor to open "no frills" accounts. Banks are given targets and they are strictly monitored. Currently India has necessary political will as well as positive response from the formal financial sectors, especially banks.

Though targets are supposedly being achieved, it is yet to be seen that it is bringing a positive change in the life of the excluded population. Thus, while "no frills" accounts have been opened; few accounts are being meaningfully operated.

Probably the gap is at the demand side; may be the needy are not ready to avail of these services in a meaningful way; because this is the first generation of the population which we are trying to link with formal financial services. They are taking time to get used to such services. They are used to deal with informal financial service providers who provide 24-hour service at their doorstep with the simplest procedures. May be, they are reluctant because of the procedures to be followed in the formal financial systems.

For a few services like savings and insurance, there is a need which needs to be converted into demand. There is also a need to help them change their financial behaviour and attitudes – they normally live on day-to-day basis and also think on a day-to-day basis. We need to build awareness among low income groups to facilitate them to think for long-term lifecycle needs. There is a need to facilitate them to change their habit of making financial decisions like impulsive borrowing without thinking or understanding its terms and conditions, and their repaying capacity. There is need to teach them to differentiate between productive and consumptive use of money, specially borrowing.

What we need is a two-step "financial literacy" programme to make "financial inclusion" successful and meaningful. One is developing personal financial management skills and the other is developing financial operation skills for availing various financial services.

Personal financial management literacy includes the component of awareness building for financial planning and changing impulsive financial decisions, understanding importance of regular savings, borrowing only for productive purpose, minimising risks through availing insurance services and also understanding financial principles. These include the following:

- the principle of fungibility of money;
- principle of power of compounding;
- principle of productive versus unproductive use of money;
- principle of borrowed versus own capital; and,
- principle of insurance.

A proper understanding of the principle of power of compounding will make the provision of "no frills" accounts meaningful because poor will understand the importance of regular savings for the long term. Similarly, the principle of productive versus unproductive use of money will reduce the use of borrowed money for productive purpose and the principle of fungibility of money may help them to save and plan for different purposes or different life-cycle needs.

Personal financial management literacy should be accompanied with financial operational literacy, like account opening procedure, explaining a nomination facility, types of saving accounts or how to avail credit from a bank.

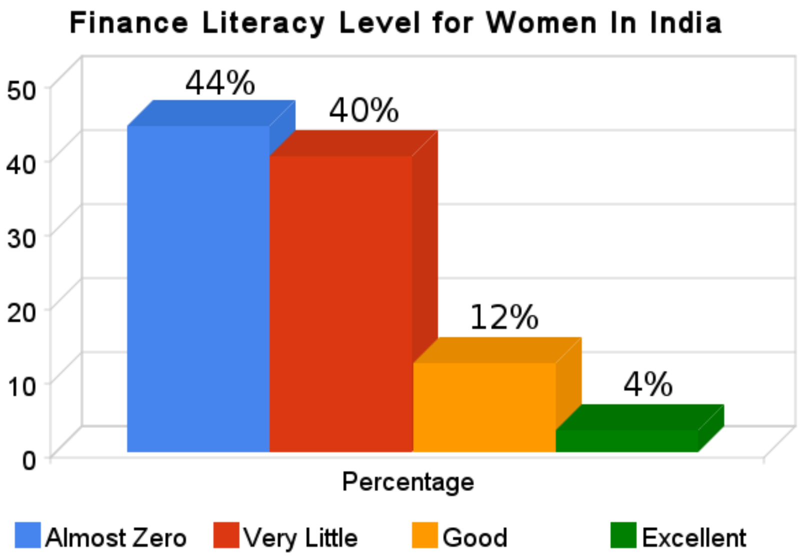
The financial inclusion programme can become meaningful if parallel work is done on both the demand and supply side. Excluded population should be prepared to avail of financial services from formal financial institutions and financial literacy can play a very important role in bringing in the desired results. Of course, it will be too much for banks to play this role of preparing people for availing financial services or converting need into demand. Thus, a parallel financial literacy movement should be encouraged, may be through the media, even as we build a cadre of financial counsellors at the grassroots level to educate people by building financial awareness. We need to ensure that the poor get access to integrated financial services and that too from formal financial institutions at a reasonable price

5.5 FINANCIAL LITERACY

The following study will brings the status of financial literacy among Indians. The graphs depicted in this section will give us the picture of financial literacy level for women in India.

Financial Literacy: Knowing What You Need To Know To Achieve Your Financial Goals

Asian countries are found to be most literate followed by the developed nations. Age wise younger people are more financially literate. This may be due to the fact that they have access to better primary education, internet and other resources. Globally when asked about saving for Oldage Planning, 59% said they are doing it. Good thing is 79% Indians are doing it in this survey.



(Women and financial literacy: OECD/INFE evidence, survey and policy responses, Financial Literacy and Education Russia Trust fund, June, 2013.)

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What are the financial services offered?

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2. What is financial literacy?

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5.6 GENESIS, OBJECTIVE AND APPROACH

As Alvin Toffler puts it “The illiterates of the 21st century will not be those who cannot read and write but those who cannot LEARN, UNLEARN and RELEARN”. Similarly Financial Literates will not be those who know how to save but those who can achieve their financial goals & achieve financial freedom.

5.6.1. Financial Education and RBI

Large segment of population remaining excluded from formal payments system & financial markets when financial market is developing & globalizing. If the market is not inclusive, obviously one can easily say it is market failure. But, government and financial sector regulators creating enabling conditions for inclusive & affordable market

Economy is growing at a rate of 8.5% - 9% in the last 5 years. Secondary (manufacturing) and Tertiary sector (Service Sector) are contributing for the growth. The contribution of agriculture is at the rate of 2%. Growth potential of Small Medium Enterprise (SME) sector is enormous. Due to limited access to savings, loans, remittance & insurance in rural/ unorganized sector, the growth is either slow or stagnant in SME. If the growth constraint addressed properly, above services will enlarge the livelihood opportunity and empowers poor. If economically weaker section empower financially, financial empowerment contribute for the socio, political empowerment and stability. Financial inclusion also provides formal identity, access to payments system & deposit insurance

Poverty, illiteracy among large section of population made them out of formal financial set-up. Economic/ financial sector reforms have created higher disposable income. New financial products in credit & investment side provided by financial intermediaries will address the need of low income groups. Those excluded from formal financial system need to be educated about banking & need for relationship with banks.

The Reserve Bank of India has undertaken a project titled "Project Financial Literacy". The Objective of the project is to disseminate information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defence personnel and senior citizens.

Project Financial Literacy

Disseminate information about central bank, general banking concepts to target groups (school/college children, women, rural/ urban poor, defense personnel, senior citizens). Modules 2 (1) Focus on economy, RBI (2) General banking. The module is in Hindi, English and Regional language. The content of the module is disseminated through banks, local govt. departments, schools, and colleges by pamphlets, posters, films. The information is available in Reserve Bank of India (RBI) Website and one accessing this link in 13 Indian languages.

Credit Counselling Centers

The need for financial counseling is to avoid informal sector and debt trap. Few banks have started credit counseling rural/ semi-urban centers which provided information about banks, financial management, repayment obligations, avoiding indebtedness, rehabilitation of distressed. Along with that Knowledge Centres are also operational to train farmers and women. In May 2006, SLBC convener banks advised to set up at least one center in each district and requested lead bank to set up more.

5.6.2 OBJECTIVES AND APPROACH

The primary objective of Financial Literacy is to improve the awareness level of the financial inclusions in varied segments of the society especially for the lower income group. This will improve the use of the financial tools more effectively and hence in turn improves the societal economy.

There are various approaches to bring financial literacy within the reach of common man. Some of them are:

- Introduction of Financial Inclusion topics at the level of schooling and make them as a part of General Education;
- Inclusion of Financial Inclusion topics at Diploma, post diploma and graduation level;
- Starting a financial literacy campaigns specifically to lower income groups to be conducted periodically during the particular year to cover as many population as possible; and
- Banks to have specific awareness programmes on the special benefits available for the lower income group so that most of the consumers can benefit.

5.7 COMPONENTS OF FINANCIAL LITERACY

The basic components of Financial Literacy are as follows.

I. Money Management

The first component of financial literacy is money management. It included following the cash flow management and net worth analysis. It can be used as tools to achieve financial goals.

Money Management Benchmarks include cash flow management, personal net worth and financial goal setting.

Cash Flow Management

It has following components.

- Identify the components of a budget;

- Create personalized budget documents; and

- Revise their budgets to reflect current cash flow.

Personal Net Worth

It includes

- Identify the components of a personal net worth statement;

- Create personalized net worth statements; and

- Understand that their net worth will fluctuate as the values of their assets and liabilities change.

Financial Goal Setting

It includes

- Differentiate between short and long term financial goals;
- Prioritize their financial goals;
- Construct a realistic financial goal action plan; and
- Revise their financial goals as life circumstances change.

II. Credit

It is not only knowing the place where one can obtain credit, it also about knowing the implications of using and misusing credit.

Credit Benchmarks

The credit benchmarks include obtaining credit and utilization of credit.

Obtaining Credit

- Differentiate among the types of credit;
- Understand which types of credit are better suited for particular purposes than other types;
- Identify types of financial institutions where credit can be obtained; and
- Understand how the credit application process works.

Utilization of Credit

- Comprehend the legal implications of using credit;
- Understand what a credit report is, how to dispute errors in credit reports, and what a consumer's rights are regarding credit reports;
- Understand what credit scores mean and the significance of their use in modern life; and
- Recognize what precautions can be taken to prevent identity theft and fraud, and what to do if victimized.

III. Debt Management

It about recognizing how using debt can be a tool in asset building.

Debt Management Benchmarks are debt measurement and debt resolution.

Debt Measurement

- Know what tools are available to them to measure their debt load;
- Determine what their appropriate debt load is; and
- Understand the difference between good debt and bad debt.

Debt Resolution

- Recognize the warning signs of excessive consumer debt;
- Understand options available to assist with excessive debt loads; and
- Evaluate which professionals can assist in dealing with excessive debt issues.

IV. Risk Management

Use appropriate risk management strategies to protect assets and quality of life.

Risk Management Benchmarks are insurance and risk management.

Insurance

- Differentiate among the types of insurance products;
- Understand their insurance needs; and
- Comprehend the implications of being insured or uninsured.

Risk Management

- Evaluate the effectiveness of risk management tools in protecting against financial loss;
- Assess their risk tolerance level; and
- Use risk tolerance levels in developing risk management strategies.

V. Investing and Old Age Planning

Implement investment and old age planning strategies to achieve financial goals.

Investing & Old age Planning Benchmarks are planning and strategies.

Planning

- Differentiate among the types of investment vehicles;
- Identify the types of financial institutions where investment products can be purchased;
- Understand the differences between old age and non-old age, and qualified and non-qualified investments; and
- Recognize the importance of planning for old age.

Strategies

- Evaluate the risks and rewards associated with investment options;
- Understand the role risk tolerance plays when choosing investment vehicles; and
- Comprehend the legal implications of investing; and
- Assess their overall financial situation in determining old age needs.

Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What are the components of Financial Literacy?

5.8 FUNDAMENTALS OF FINANCIAL PLANNING

A financial plan can be a budget, a plan for spending and saving in future income. This plan allocates future income to various types of short term or long term expenses, such as rent or utilities, and also reserves some income for short-term and long-term savings. A financial plan can also be an investment plan, which allocates savings to various assets or projects expected to produce future income, such as a new business or product line, shares in an existing business, or real estate.

In business, a financial plan can refer to the three primary financial statements (balance sheet, income statement, and cash flow statement) created within a business plan. Financial forecast or financial plan can also refer to an annual projection of income and expenses for a company, division or department. A financial plan can also be an estimation of cash needs and a decision on how to raise the cash, such as through borrowing or issuing additional shares in a company

While a financial plan refers to estimating future income, expenses and assets, a financing plan or finance plan usually refers to the means by which cash will be acquired to cover future expenses, for instance through earning, borrowing or using saved cash.

5.9 BASIC FINANCIAL PLANNING CONCEPTS

Most principles of personal and business financial planning evolve from the following concepts.

[A] Marketability and Liquidity

Marketability and liquidity are two concepts that are interrelated but often confused by the business professional. Marketability deals with the speed at which an asset can be turned into cash. *Liquidity*, on the other hand, deals with an asset that can be turned to cash without a significant loss of value. A doctor's practice may be good investment, but is it not particularly marketable or liquid. A common stock traded on the Stock Exchange can be easily sold for its quoted fair market value.

[B] The Time Value of Money

To the young doctor starting a career, the time value of money is not a primary concern. It involves spending money in the future compared with spending today. Paying off high student loans while earning a relatively low salary leaves barely enough for present personal consumption. In the past, the rationale to spend today, forsaking the future, was not only a function of necessity but stemmed from the probability that future income would grow appreciably higher. Today, this is no longer a given for business professionals.

In the simplest terms, a rupee today is worth more than a rupee tomorrow. The supply and demand for a rupee today to be paid back in the future is what determines interest rates. This calls for an understanding of the concepts of present and future value.

Present value is what you have today. So a rupee is a worth a rupee. Future value is what that rupee will grow to when compounded at a given interest rate. If you started with Rs.100 and earned 10 percent for five years, you would end up with Rs.161.

5.10 FACTORS AFFECTING ACCESS TO FINANCIAL SERVICES

A number of factors affecting access to financial services have been identified in many countries. These are:

• ***Gender issues:*** Access to credit is often limited for women who do not have, or cannot hold title to assets such as land and property or must seek male guarantees to borrow.

• ***Age factor:*** Financial service providers usually target the middle of the economically active population, often overlooking the design of appropriate products for older or younger potential customers.

• ***Legal identity:*** Lack of legal identities like identity cards, birth certificates or written records often exclude women, ethnic minorities, economic and political refugees and migrant workers from accessing financial services.

• ***Limited literacy:*** Limited literacy, particularly financial literacy, *i.e*., basic mathematics, business finance skills as well as lack of understanding often constrains demand for financial services.

• ***Place of living:*** Although effective distance is as much about transportation infrastructure as physical distance, factors like density of population, rural and remote areas, mobility of the population (*i.e.*, highly mobile people with no fixed or formal address), insurgency in a location, *etc.*, also affect access to financial services.

• ***Psychological and cultural barriers:*** The feeling that banks are not interested to look into their cause has led to self-exclusion for many of the low income groups. However, cultural and religious barriers to banking have also been observed in some of the countries.

• ***Social security payments:*** In those countries where the social security payment system is not linked to the banking system, banking exclusion has been higher.

• ***Bank charges:*** In most of the countries, transaction is free as long as the account has sufficient funds to cover the cost of transactions made. However, there are a range of other charges that have a disproportionate effect on people with low income.

• ***Terms and conditions:*** Terms and conditions attached to products such as minimum balance requirements and conditions relating to the use of accounts often dissuade people from using such products/services.

• ***Level of income:*** Financial status of people is always important in gaining access to financial services. Extremely poor people find it difficult to access financial services even when the services are tailored for them. Perception barriers and income discrimination among potential members in group-lending programmes may exclude the poorer members of the community.

• ***Type of occupation:*** Many banks have not developed the capacity to evaluate loan applications of small borrowers and unorganised enterprises and hence tend to deny such loan requests.

• ***Attractiveness of the product:*** Both the financial services/products (savings accounts, credit products, payment services and insurance) and how their availability is marketed are crucial in financial inclusion.

Check Your Progress Exercise 3

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What are the 2 concepts of Financial Literacy?

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5.11 FURTHER ACTION

To address the financial literacy deficit, further action is needed at both the international and national levels. Raising the level of financial literacy, particularly in low-income developing countries and among low income groups will require addressing seven interrelated challenges. These include the need for the following:

- Enhanced international dialogue in the area of financial education,
- Better integration of financial literacy into financial sector development and education sector programmes,
- Integrated national approaches to tackling financial literacy; that is, national financial education strategies defining the roles and responsibilities of various stakeholders,
- More pilot programmes to test and refine financial literacy approaches, tools, and materials,
- Rigorous evaluation to inform the priorities of current programmmes, benchmark current levels of financial knowledge, and measure the impact over time of initiatives to improve financial capability,
- New and improved research, including baseline surveys of financial capability, to raise awareness, provide more information, and disseminate the lessons learned, and
- Identification of good practices and development of international guidelines.

The OECD, DFID, and the World Bank Group are committed to working together and with others to respond to these challenges and to do more to support efforts in this important area. Below are descriptions of what each of these organizations is doing to advance the field of financial education and financial literacy.

5.12 SUMMING UP

We have discussed all the aspects of financial inclusion and financial literacy in detail in this Unit. The Unit covered Financial Inclusion- An Overview, definition for Financial Inclusion, and the need for Financial Literacy for financial Inclusion. Under the heading need for financial literacy, the extracts of financial literacy survey quoted. Along with that what is significant to achieve your financial goals and the initiatives of RBI to educate masses on financial literacy also discussed in details. After discussing above said issues, finally further action needed to strengthen financial literacy is given in this Unit.

5.13 GLOSSARY

Indemnity: To "indemnify" means to make whole again, or to be reinstated to the position that one was in, prior to the happening of a specified event or peril.

5.14 ANSWERS TO CHECK YOUR PROGRESS EXERCISE

Check Your Progress Exercise 1

1. Some of the financial services offered are:

- Savings
- Credit
- Insurance
- Remittance facilities etc.

2. Financial literacy is the process by which investors improve their understanding of financial markets, products, concepts and risks. Through information and objective advice, they develop the skills and confidence to become more aware of financial risks and opportunities and make informed choices to improve their financial position.

Check Your Progress Exercise 2

1. The components of financial literacy are:

- Money Management
- Credit
- Debt Management
- Risk Management

- Investing and Old age Planning

Check Your Progress Exercise 3

1. The two concepts of financial planning are:

- Marketability and Liquidity
- Time value of money

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5.16 QUESTIONS FOR REFLECTION AND PRACTICE

1. Discuss the factors affecting financial inclusion in India.