FINANCIAL INCLUSION SPECIAL REFERENCE TO FINANCIAL LITERACY AND DEBT MANAGEMENT

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Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players

Financial Inclusion and Financial Literacy are twin pillars. While Financial Inclusion acts from supply side providing the financial market/services what people demand, Financial Literacy stimulates the demand side – making people aware of what they can demand.

Developing Economies face the problem of low level of literacy, poor accessibility and low demand. Therefore it is necessary for developing an Index for measuring both Access as well as the level of Literacy.

Issues– Inclusion & Literacy

Demographic Spread – How to provide banking services to villages with low population – Viability?

Evolving of an Appropriate Business Model & an Efficient Delivery Mechanism

Financial Literacy – How to increase financial awareness mainly amongst the excluded masses

How to have a National Level Coordination of all stakeholders like Banks, Governments, Civil Societies, NGOs etc. required to achieve the objective of financial inclusion & literacy.

Financial Inclusion Initiatives…

Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel.

Separate program for Urban Financial Inclusion initiated

Roadmap for providing banking services – A structured way of covering villages. In the first phase villages with population above 2000 was targeted. The focus has now shifted to villages with population less than 2000.

Financial Inclusion Plan for Banks - All domestic commercial banks - public and private sector have drawn a Board approved 3 year Financial Inclusion Plan (FIP) starting April 2010.

Self-set targets - FIPs to be integrated with Business plan of the banks

Banks advised to finalise their next 3 year FIP for the period 2013-16

FIPs-Performance Analysis -December 2012

Banking connectivity has been extended to 2, 11,234 villages up to December 31, 2012 from 67,694 villages in March 2010. 5694 rural branches have been opened.

Numbers of Business Correspondents have increased from 34,532 to 1, 52,328.

1714.27 lakh Basic Savings Bank Deposit Accounts, 317.33 lakh Kisan Credit Cards and 31.14 lakh General Credit Cards remain outstanding as on December 31, 2012.

Share of ICT based accounts have increased substantially - Percentage of ICT accounts to BSBDAs has increased from 25% to 45%

Financial Inclusion plan progress – December 2012

Financial Inclusion and Financial Literacy are twin pillars: -

Financial Literacy stimulates the demand side – making people aware of what they can demand.

Financial Inclusion acts from supply side providing the financial market/services what people demand

Issues in Financial Literacy in India

A large population of alphabetically illiterate population - requiring basic financial knowledge

A large section of financially excluded population- need to be told of benefits of financial inclusion and also to be provided

A large growing segment of educated middle class-requiring financial education

A growing capital market with increasing retail participation-requiring financial education and consumer protection

A growing insurance market with participation of private players - need consumer protection and financial education

A large section of workers having no pension

A move from Defined Benefit Pension Schemes to Defined Contribution Pension Schemes

Hence, a large workforce needs to be told about riskiness of various investment portfolios

FinancialLiteracy –Institutional Framework

Financial Literacy & Financial inclusion to go together- Financial Stability Development Council - Mandated to focus on Financial Inclusion and Financial Literacy

A technical group on Financial Inclusion and Financial Literacy under aegis of FSDC–Coordinating the efforts of all Financial Sector Regulators

National strategy on Financial Education prepared

Financial Literacy-To be included in School Curriculum at National Level

658 Financial Literacy Centers (FLCs) functioning as at the end of December 2012

1.5 million People educated during the period April to December 2012

Financial Literacy material- Messages for Unbanked audience - Lucid manner-Simple language

To be used as standard curriculum by banks during their financial literacy activities

Issued Guidelines on Conduct of Financial Literacy Camps-Mass Scale awareness-FLCs (650+) -At least once in a month-Quarterly Monitoring

For Financial Access and Education Imperatives to succeed:

The key is establishing an appropriate Business Delivery Model through the involvement of all stakeholders to make Financial Inclusion a reality

Access to financial services and Financial Education must happen simultaneously

It must be continuous and must target all sections of the population simultaneously

Credit counselling often involves negotiating with creditors to establish a debt management plan (DMP) for a consumer. A DMP may help the debtor repay his or her debt by working out a repayment plan with the creditor. DMPs, set up by credit counsellors, usually offer reduced payments, fees and interest rates to the client. Credit counsellors refer to the terms dictated by the creditors to determine payments or interest reductions offered to consumers in a debt management plan.

After joining a DMP, the creditors will close the customer's accounts and restrict the accounts to future charges. The most common benefit of a DMP as advertised by most agencies is debt consolidation of multiple monthly payments into one monthly payment, which is usually less than the sum of the individual payments previously paid by the customer. This is because credit cards banks will usually accept a lower monthly payment from a customer in a DMP than if the customer were paying the account on their own. Some DMPs advertise that payments can be cut by 50%, although a reduction of 10-20% is more common.

The second feature of a DMP is a reduction in the interest rates charged by creditors. A customer with a defaulted credit card account will often be paying an interest rate approaching 30%. Upon joining a DMP, credit card banks sometimes lower the annual percentage rates charged to 5-10%, and a few eliminate interest altogether. This reduction in interest allows the counselling agencies to advertise that their customers will be debt free in periods of 3–6 years, rather than the 20+ years that it would take to pay off a large amount of debt at high interest rates.

A third benefit offered by credit counselling agencies is the process of bringing delinquent accounts current. This is often called "reading" or "curing" an account. This usually occurs after making a series of on-time payments through the debt management program as a show of good faith and commitment to completion of the program. For example, a client with an account with a monthly payment of $50 which has not been paid in two months might be considered by the creditor to be 60 days past due. After joining the DMP and making three consecutive monthly payments, the creditor could rage the account to reflect a current status. Thereafter the monthly payment due on the statements would be the monthly payment negotiated by the DMP, and the account report as current to the credit bureaus. This process does not eliminate the prior delinquencies from the credit bureau reports. It merely gives a fresh start and an opportunity for the client to begin building a positive credit history. Like all derogatory credit information, the passage of time will lessen the impact of the negative marks when credit scores are calculated. However, raging an account will reset the clock on the statute of limitation (in most US states credit card debt expires worthless in 6 years). So by raging an account, debt collectors get more time to sue you.

History of credit counselling

At one time, there were over 1,000 credit counselling agencies; today, there are fewer than 300 active organizations in the United States. The first credit counselling agencies were created in 1951 in the United States when credit grantors created the National Foundation for Credit Counselling, or NFCC. According to W. Patrick Boisclair, chairman of the NFCC's board of trustees, "the NFCC initially monitored legislative and regulatory activity for its retail credit members" and "also conducted public awareness campaigns on credit."[3] The organization's stated objective was to promote financial literacy and help consumers avoid bankruptcy, but members did not serve as collection agencies for the creditors. The first local credit counselling franchises emerged in the 1960s and offered education and counselling directly to consumers.

In 1993, the Association of Independent Consumer Credit counselling Agencies, or AICCCA, was founded, citing a need for "industry-wide standards of excellence and ethical conduct". The AICCCA was formed from the group of counsellor's who favoured telephone delivery of debt management programs. The NFCC was, in the beginning, strongly opposed to this telephone business model, primarily favouring face-to-face counselling as a more effective solution. Eventually, all organizations practiced both phone and face-to-face processes with some agencies using large inbound call centres driven by mass media advertising.

In May 2010, the Association of Credit counselling Professionals or ACCPros, held its inaugural conference as a trade organization. ACCPros is the only major credit counselling trade group that accepts for-profit agencies as members. Though not the only trade association with legislative activities, ACCPros focuses on advocating for reasonable and practical regulations and laws protecting consumers and governing the credit counselling industry. Many credit counselling agencies belong to more than one trade organization. However, not all credit counselling agencies belong to a trade organization, nor are they required to do so.

In 2005, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 made credit counselling a requirement for consumer debtors filing for Bankruptcy in the United States. In order to meet this requirement, during the 180-day period preceding the filing of bankruptcy, the debtor must complete a program with an approved non-profit budget and credit counselling agency. Such a program may include, but is not limited to, one counselling session conducted in person, by phone, or over the internet. In addition, a post-filing debtor education credit counselling session is required in order to complete the bankruptcy process and to have your debts discharged.

Three years after a surge in the number of distressed borrowers with personal and agricultural loans compelled the Reserve Bank of India (RBI) to come out with the concept of credit counselling institutions, the central bank has said that the scheme has its 'limitations' and has sought to overhaul the scheme. Under the new plan, in addition to the existing Financial Literacy and Credit Counselling (FLCC) institutions, RBI has asked banks to directly set up Financial Literacy Centres (FLCs) in each of the Lead District Manager (LDM) Offices in a time-boundmanner.

After RBI came out with the concept of financial literacy and credit counselling centres in 2009, banks set up over 135 credit counselling centres in various states. To evaluate the efficacy of the scheme and its impact on financial literacy, RBI conducted a sample survey of 30 FLCCs across 16 states. "The findings of the study indicate the limitations of the model scheme in scaling up the financial literacy efforts in the desired manner,"RBIsaid.

CONCLUSION

- In spite of all these innovations and relaxing norms in the banking sector it's the personal discretion that really matters.
- If the banks are able to influence this discretion with its innovating products in a nurturing route that will benefit them
- Let us conclude with the words, "step into a bank and step out of poverty"

References

www.google.com

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Books of Prasana Chandra on Financial Management

Kothari Research methodology