

Investor Education in India: **its relevance and Roadmap**

BY:

**Prof. Kamakhya Nr. Singh,
IEPFA Research Chair, IICA**

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Background



Financial literacy is defined by OECD (Organisation for Economic Co-operation and Development) as “A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing” **(OECD/INF, 2018)**



Financial education is a 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 **(OECD, 2005)**.

The process of **investor education** can be defined building on the OECD definition of financial education (OECD, 2005) as “the process by which through information, instruction and/or objective advice, potential and existing investors improve their understanding of investment products, concepts and risks and develop the skills and confidence to become more aware of investment risks and opportunities, to make informed choices, to know where to go to seek advice, and to take other effective actions to improve their long-term financial well-being”. **(OECD, 2017)**

- **Financial Literacy and Financial Inclusion** form a dyad, which is necessary for ensuring financial well-being of citizens in the country.
- **Financial Inclusion**, as an enabler for inclusive growth and financial well-being of Indians, is a national priority of Government of India.
- Though the term **Financial education** and **Financial Literacy** are not the same, these are related concepts. People achieve financial literacy through the process of financial education.
- **Investor education/awareness** is a subset of financial education and as various function/transaction of finance, such as banking, investment, insurance, pension, remittance, etc. are closely interlinked, and as it's the same individual who has to take decision for herself/himself, programmes of investor education are not solely focussed on investment, but are more encompassing, covering other aspects of finance as well.

Global status on Financial Literacy



In the **OECD/INF Global Survey of Adult Financial Literacy, 2020**, where 26 countries from Asia, Europe and Latin America had participated), the average financial literacy score was 12.7 as against the maximum financial literacy score of 21 (Financial knowledge – 7, Financial behaviour – 9, Financial attitude – 5).

Minimum target score for inclusion in financially literate group is: Financial knowledge – 5 out of 7, Financial behaviour – 6 out of 9, Financial attitude – 3 out of 5

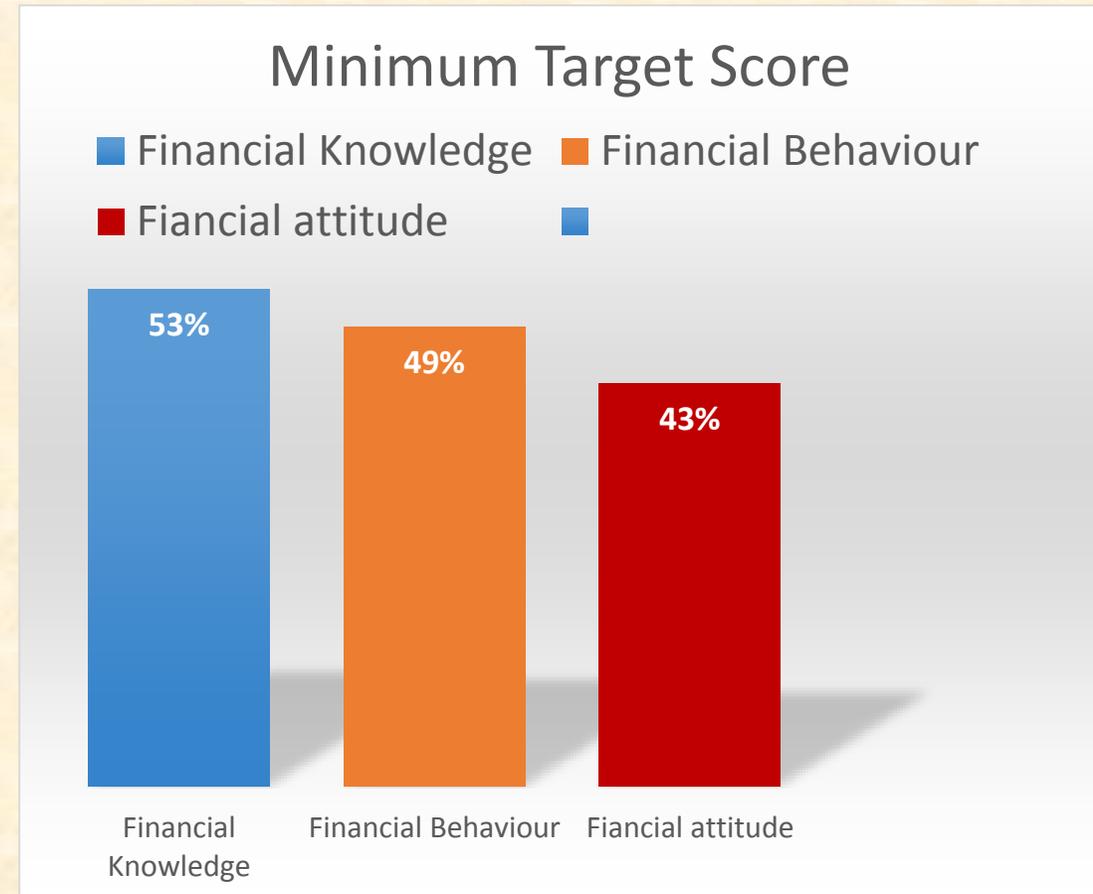


Figure 1: OECD/INFE Global Survey of Adult Financial Literacy, 2020

Status of Financial Literacy in India

National Centre for Financial Education (NCFE) Report (2019) on Financial Literacy and Inclusion in India

- **Financial Literacy and Inclusion Survey** was conducted in 2018-19
- As compared to global figure on achieving **minimum target score** for inclusion in financially literate group, Indian figures appear better on **financial behaviour (53%)** and **attitude (89%)**, while it is slightly lower for **financial knowledge (49%)**.
- The survey found that, on an average, **only 27% of Indian population** was financially literate. This was higher than 2013 survey figure (of 20%).

DISTRIBUTION OF RESPONDENTS QUALIFYING BY SCORES FOR COMPONENTS OF FINANCIAL LITERACY	% of Respondents Qualifying for			
	Financial Attitude	Financial Behaviour	Financial Knowledge	Financial Literacy
	>=3 points	>= 6 points	>= 6 points	>= 15 points
	5 points	9 points	8 points	22 points
Central	88%	51%	41%	21%
East	92%	52%	31%	20%
North	91%	53%	56%	32%
NorthEast	84%	47%	56%	33%
South	88%	52%	64%	30%
West	85%	61%	52%	37%
All-India	89%	53%	49%	27%

Figure 2. Financial Literacy Score
(Source: Adopted from NCFE report (2019) on financial literacy)

GFLEC report (2019) based on S&P Global Survey on financial literacy



According to the survey conducted by the Global Financial Literacy Excellence Center (GFLEC), **only 24% of the Indian adult population** were found to be financially literate. This is a confirmation of the financial literacy score of Indians, which was brought out by NCFE survey as well as the IICA-IEPFA survey.

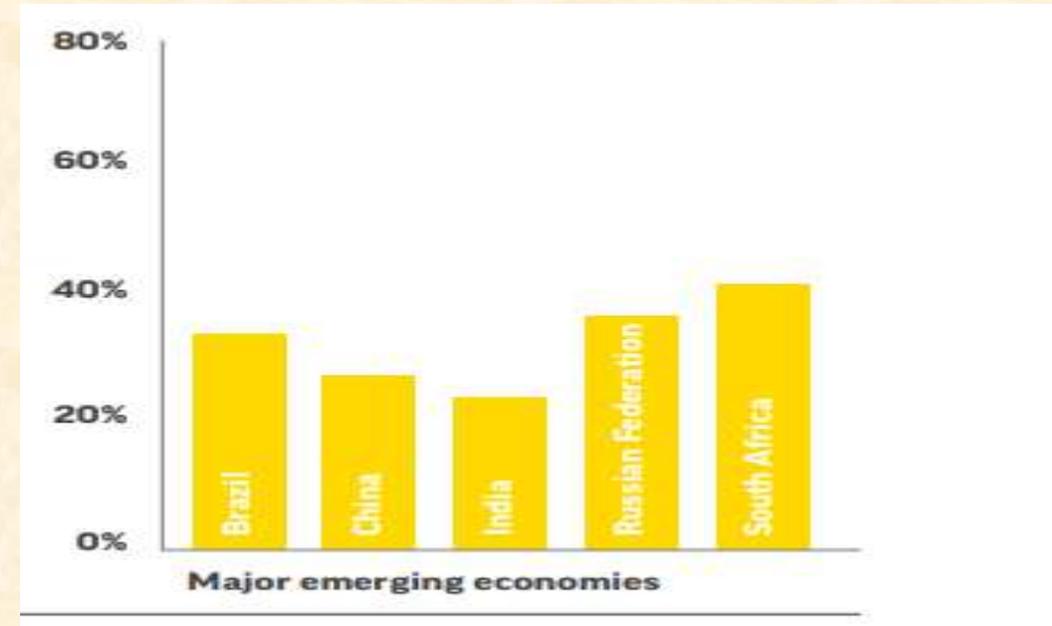


Figure 3. Financial Literacy in BRICS Nations
(Source: S&P Global FinLit Survey)

IICA-IEPFA Survey on Financial Capabilities (2018)

- Indian Institute of Corporate Affairs (IICA) carried out a nation-wide survey on investors' financial capability in India on more than 11,000 households.
- Out of a maximum possible score of 21, the financial literacy score for the target group was found to be 11.97.

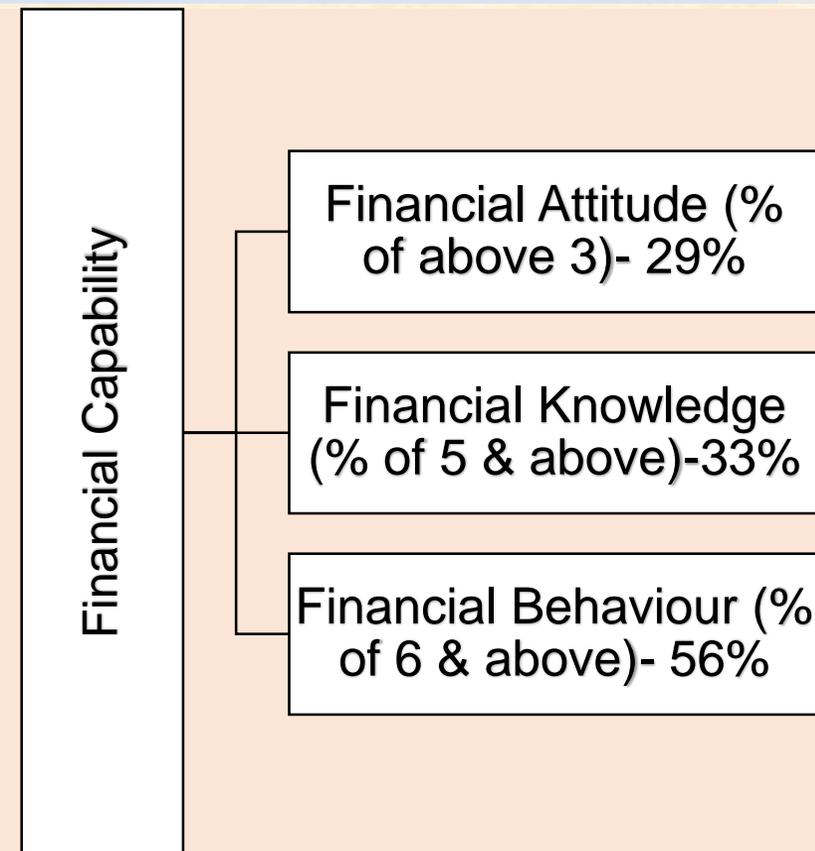


Figure 4. Financial capability score under each category

Relevance of investor education

- **Investors' perspective**
- **Government perspective**

Relevance of investor education – Investors' perspective

As stated in the definition of Financial Literacy, Investor/Financial education is **necessary for making** sound financial decisions and **ultimately achieving** individual financial wellbeing. Investor education is helpful for investor in making better assessment of relevance and suitability of the investment advice, investment products and services. This is really helpful, when there are numerous advisors who promise great return from investment. Thus apart from guiding investors in making investment decisions for their financial well being, investor education is required for investor protection as well.

Case study – keeping FD with bank (how risky is it? – Depends, whether the FD is with SBI/HDFC or Cooperative bank like PMC)

It is expected that investor education will make the investors

- Aware of the (financial) risks they are confronted with and be able to estimate the amount of savings and investments they will need to meet their own needs and those of their family;
- understand the balance of risk and reward relative to saving and investment products and their costs;
- recognise that market fluctuations are normal; and, acknowledging their own limitations, know who to trust to provide unbiased, objective advice.
- better equipped to recognise and avoid fraud and scams.
- help investors, detect and avoid suspected fraudulent activity, and distinguish between regulated and non-regulated activity, all of which could reduce investor losses.

As a result of sound investor education, it is expected that consumer complaints will reflect genuine breaches in consumer protection and regulation, reducing the burden on ombudsmen and consumer complaints bureaux caused by consumers misunderstanding their rights and responsibilities and increasing the speed with which genuine problems are resolved.

Relevance of investor education – government perspective



This way, Investor education and financial literacy programs have the potential to help improve financial outcomes for retail investors. Some key benefits include more informed saving and investment decision-making, better financial and retirement planning, greater confidence and higher participation in the securities markets, greater wealth accumulation, and increased awareness of investor rights and responsibilities. (Lusardi & Mitchell, *supra* note 6 at 42-3)

Ideally, investor education and financial literacy programs, as a complement to securities market regulation and supervision, can help address any misalignment of investor and industry interests, particularly with respect to information asymmetry. For example, investor education could potentially reduce both the propensity for investors to **mis-buy investment products** and services, and for intermediaries to **mis-sell products and services**. This could lead to fewer investor complaints.

From government perspective, investor education:

- Helps in supporting informed and effective participation of consumers in retail investment markets
- Encourages savvy and commensurate behaviours with a focus on the balance between short-term priorities and longer-term security. This is the case in particular when individuals and households would have available income to dedicate to long-term investments, but lack the financial literacy and confidence required to overcome the barriers
- Increases the levels of investments (from low to high) and/or diverts investments from unproductive assets to better yield assets (governments might wish to use investor education policies to stimulate investment in domestic capital markets to deepen the capital markets). For emerging economies in particular, encouraging participation of local investors in domestic capital markets can increase their depth and make them less dependent on external factors and more resilient to global financial shocks, as capital market development tends to lower the sensitivity of asset returns to global financial conditions (IMF, 2014).
- Contributes to effective financial markets regulation, as educated investors can support securities markets regulators by spotting and reporting frauds and scams.

Roadmap of Investor education and financial literacy

- **Theoretical basis**
- **Policy initiatives**
- **Practical actionable points**

Theoretical basis - Research - Literature Review

Financial Education

Financial literacy

Financial knowledge

Huston, 2010, Potrich et al., 2016

Financial behaviour

Capuano & Ramsay (2011), Widyastuti et. al, 2020

Financial Attitude

Funfgeld & Wang, 2009; Rai et al., 2019

Theoretical basis – IEPFA Research



- ✓ Safeguards against Ponzi scheme and financial fraud
- ✓ Enables digital financial transactions, which is more efficient for users as well as financial system
- ✓ Helps understand, manage and mitigate risks arising from making risky investment in securities market
- ✓ Enhances the financial resilience of individuals, especially in a crisis situation
- ✓ Helps in better management of Financial fragility

Illustration1: Retail Investor's participation in Stock market post COVID 19



Increase in the trading volumes in inferior-quality stocks (Z category stocks), reduction in percentage of deliveries in cash segment, and exclusive dependency of investors on financial advisors/facilitators/firms in the form of distributors suggest **that a lot needs to be done to augment the investors understanding of investment related risks, financial markets, financial instruments and process of investing so that their financial well-being are not compromised.**

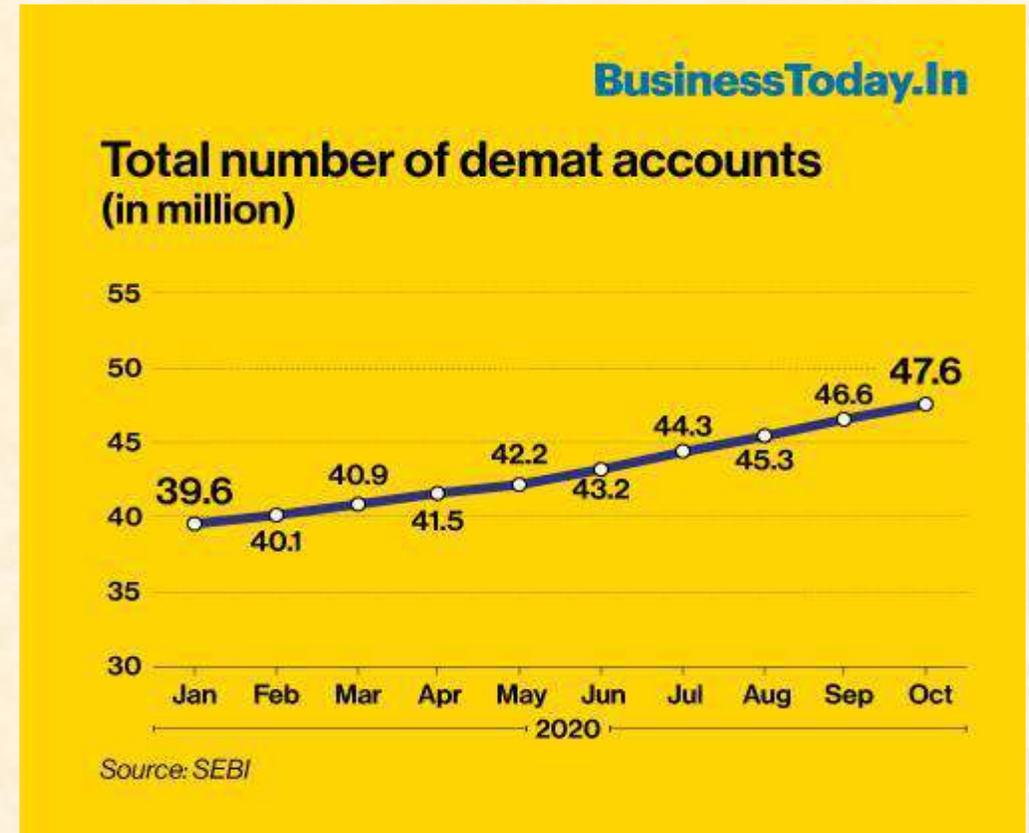


Figure 5. Total number of demat accounts (in million)
(Source: SEBI, adopted from Business Today)

National Strategy for Financial Education (NSFE: 2020-2025)



- The **National Centre for Financial Education (NCFE)**, in consultation with the four Financial Sector Regulators and other relevant stakeholders, has developed **National Strategy for financial education 2020-2025**. This strategy was approved by TGFIFL and FSDC, Ministry of Finance, Government of India.
- In order to achieve the Strategic Objectives laid down by the new NSFE, it has been recommended to adopt **'5 Cs' approach**. Accordingly, the roadmap has been laid out for the period 2020-25.

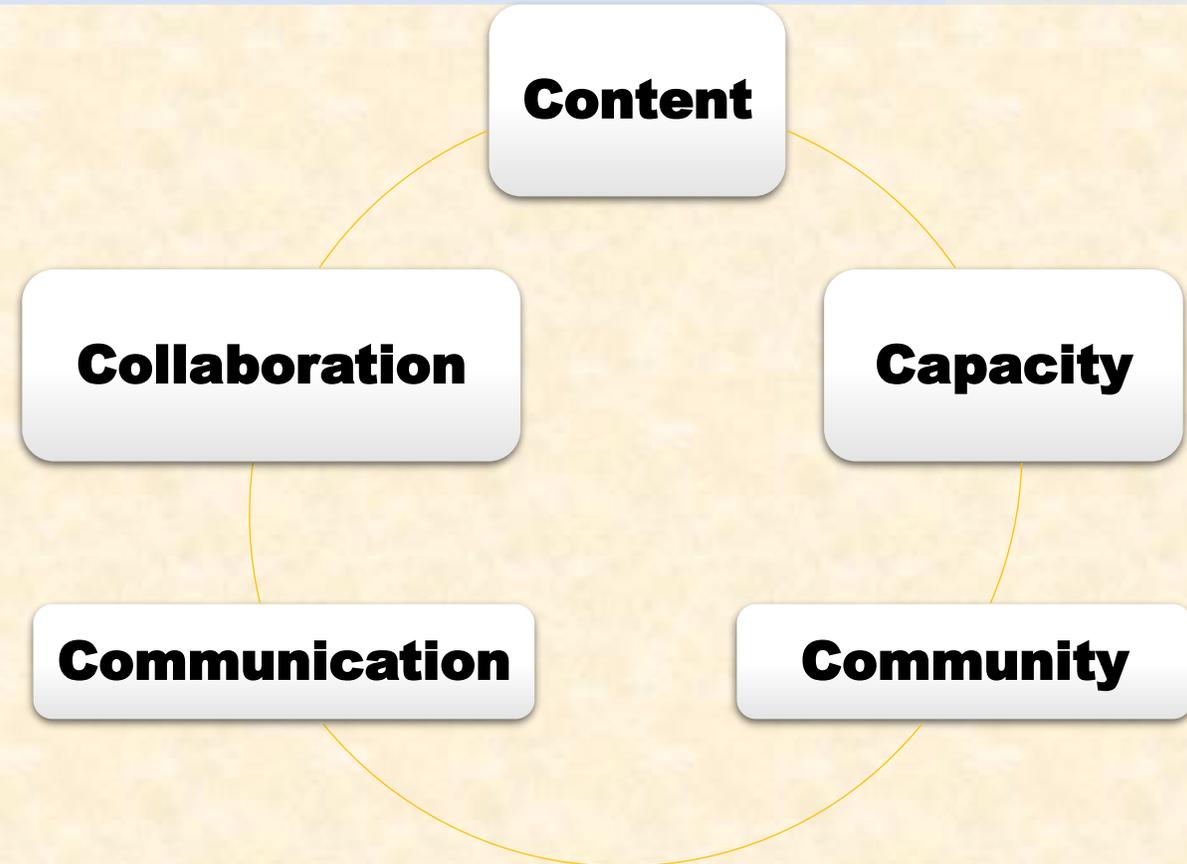


Figure 6. 5'Cs under NSFE (2020-2025)



Role of IEPFA in Investor Education and Protection

While institutions like SEBI have a regulatory role for security market and its investors and are empowered to take actions and steps related to protection and education of investors on their own, IEPFA plays an important role when it comes to investor education and protection of investors interest

IEPFA, while administering the IEPF, facilitates investor education and protection of investor interest by:

- The refund in respect of unclaimed dividends, matured deposits, matured debentures, the application money due for refund and interest thereon
- Distribution of any disgorged amount among eligible and identifiable applicants for shares or debentures, shareholders, debenture-holders or depositors who have suffered losses due to wrong actions by any person, in accordance with the orders made by the Court which had ordered disgorgement
- Reimbursement of legal expenses incurred in pursuing class action suits under sections 37 and 245 by members, debenture-holders or depositors as may be sanctioned by the Tribunal and
- Conduct of Investor Awareness Programmes (IAPs) for investors to enlighten them about issues related to finance about which they needful to be mindful and watchful

Implementation of NSFE from IEPFA perspective

For implementation of NSFE (2020-25), IEPFA has prepared its own indicative action plan. A few of the actionable points are as under:

- ✓ **Dashboard of Programmes on investor education**-Have a dashboard to digitally collect data (through online and automated mode) on all the IAPs conducted across country.
- ✓ **Nationwide contest/competition to promote investor/financial education** - it can be planned to work with NCFE for using the system and question bank of National Financial Literacy Assessment Test (NFLAT)
- ✓ **Programme for School principals** – It can be planned to work with CBSE/ICSE and conduct nationwide online half-day programme of financial education for school principals.
- ✓ **Install DSS (digital display) and kiosks in partnership with banks** like ICICI, Kotak Bank and Indusind Bank at prominent colleges and schools.
- ✓ **Establishment of Media Manager Cell:**
 - (i) Actively driving financial literacy campaigns on Social Media focusing on providing social media updates.
 - (ii) Creation of Chatbots on the Portal which act as guiding points of reference to the investors in case of grievances and related procedures,
 - (iii) Development of Mobile applications related to Investor Awareness
- ✓ **Use of short training programmes and material for conducting IAPs:**
- ✓ **Development of Model Code of Conduct and Procedural Guidelines to be Followed by Resource Persons (RPs)**
- ✓ **Carry out action research** with focus on the issues related to financial markets, aspects related investor well being and other areas of interest as per requirements of regulators/stakeholders.

Illustration 2: Operationalize the strategy of popularizing digital financial transaction in rural areas



(OUR MODEL)

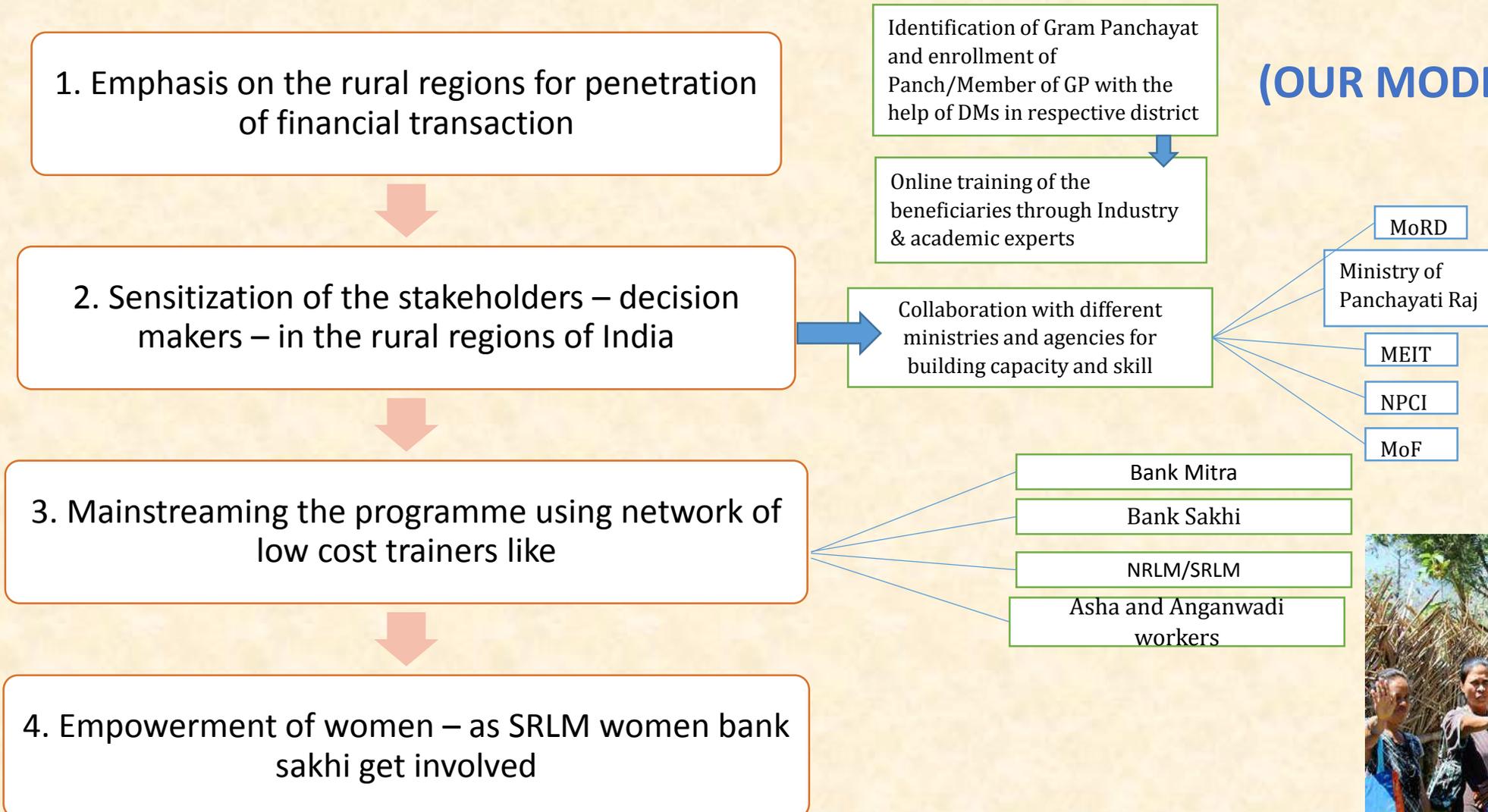


Illustration 2: Emphasizing more on usage of digital financial services especially in the current scenario of COVID19

ADBI (2020) working paper in the context of South Asia And Sub-saharan Africa found that financial and digital literacy are key factors to building inclusiveness and financial resilience.

Kaiser, Lusardi & Menkohoff (2020), seeking evidence from a meta-analysis of 76 randomized experiments, found a positive impact of financial education programmes on financial knowledge and downstream financial behaviour.

IEPFA working paper (2020)

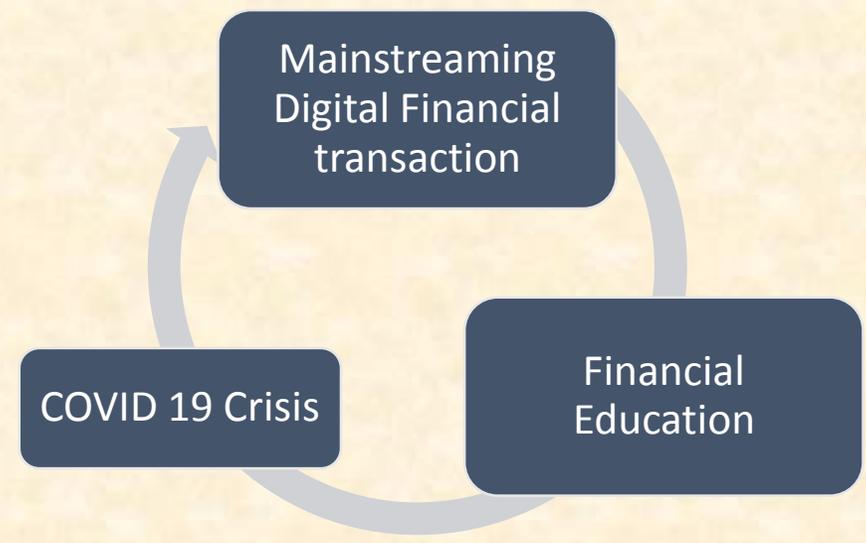


Figure 7. Mainstreaming digital financial transaction through financial education under COVID 19

How to do it?????

1. Encourage digital financial transaction by **providing incentives, prizes, cashback**, etc. Very recent scheme of **PM Svanidhi Yojana** has recently come out with incentivization of digital financial transaction made by street vendors of India. If the street vendors make repayments of their PM Svanidhi Yojana loan through digital means, they get back a part of the interest chargeable on their loan!



2. It is important for these financial education programmes to focus **more on “doing” aspects rather than just “classroom teaching/studying”** aspects. Doing aspect could be actually carrying out digital transfer of small amount of fund amongst the group members.



Way Forward



Given the population of India (indicative of demand and requirement of financial education) and varied requirement of different segment of population on one hand and the number of agencies (indicative of supply/provision of financial education) conducting programmes of financial education, whose efforts are many a times duplication of energy, resources and effort on the other hand, it's important that all the stakeholders need to make joint effort in creating a bigger impact through programme of financial education than would be possible, if the agency/institutions were to continue working on their own.

As an indicative roadmap, to further strengthen the impact and scope of programmes on investor education and protection, programmes and projects can be considered to

- 1) Catch young – focus on school and college – provide basic financial education at the earliest so that they are protected from making serious mistakes in taking financial decisions
- 2) Reach diverse segment of population, based on regions (rural, urban-slums, etc.), gender (women), occupation (farmers), income level (low income), keeping their needs
- 3) Use technology in making programmes of financial education efficient and scalable
- 4) Work in partnership with wider set of international/national organization/stakeholders, who have similar aims
- 5) Promote digital financial transaction to not only support government initiatives but also change the behaviour of users of financial transaction in making it more efficient
- 6) To undertake path-breaking research to gain insight into developing better understanding of financial education and financial inclusion, while carrying out policy changes in the area related to investor education and protection.

THANKS