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Anatomy of FLC – AN evaluation

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Abstract
This article is an attempt to evaluate the structure and composition of FLC (Financial Literacy Centres) exclusively formulated by RBI in order to inculcate the financially illiterate individual into Financial Literate. Financial inclusion is viewed as a key indicator of a country's long-term development. In India, banking reforms began in 1969 and 1980 with bank nationalisation, but it wasn't until 2005 that the Reserve Bank of India (RBI) emphasised the need of inclusive banking in its Annual Policy Statement for 2005-06. It instructs banks to pool their resources (financial and technological) in order to reach out to all financial goods and services offered by the banking sector. When the Reserve Bank of India realised that the traditional banking system was out of reach for the poor in India, it directed banks to make Financial Inclusion a commercial priority. To that end, the RBI has devised a number of initiatives targeted at reducing financial exclusion.

Keywords: FLC, RBI, financial inclusion, financial literacy

1. Introduction

According to the Committee on Financial Inclusion in India's report, financial inclusion is the process of providing vulnerable groups, such as weaker parts and low-income groups, with timely and enough credit when needed at an affordable cost (Rangarajan, n.d.). People who are aware of and use financial products and services in their daily lives live in a society with a wealth of financial information. Every economy's backbone is the banking system, and marketing banking products and services is important to the country's economic prosperity. Due to India's complex and fractured socioeconomic patterns, it is critical to channel resources for the benefit of the entire society. There is, however, an issue.

People continue to rely on local money lenders and pawn brokers to assist them overcome their financial challenges, despite the fact that there are other possibilities. The exorbitant interest rates charged by local money lenders are often too much for them to bear. As a result, there is a sizable uneducated population in rural areas who are unaware of the benefits of participating in the official financial system (Amromin & Evanoff, n.d.). The goal of financial education is to change attitudes among various marginalised populations. In light of these circumstances, the RBI has developed financial literacy centres to help various target groups improve their financial literacy. Through FLCs, RBI hopes to educate the poor as well as school and college students. FLC reaches out to the underserved by holding brief seminars and symposium.

2. Objective of the Study

- To descriptively evaluate the structure of Financial Literacy Centres (FLCs).

3. Background

Financial literacy is defined as "the ability to grow, monitor, and effectively deploy financial resources to improve one's own, one's family's, and one's business's well-being and economic stability," according to the OECD (Siddiqui, 2019) [3].

India, as the world's second most populated country, has a large human resource pool. We need to take a holistic strategy if our economy is to grow sustainably. The Indian economy is preparing for the shift to a digital economy by recognising the value of technology. Who will be able to survive this transition is the true question? While the Indian financial system is well-structured, it is also complicated. It is vital that we incorporate India's substantial demographic dividend into our well-structured financial system.

4. Empirical Evidence

According to a survey performed by Standard & Poor's, 76 percent of Indians are unaware of basic financial concepts. In 140 nations, almost 150,000 people were tested on their understanding of four key financial concepts: numeracy, risk diversification, inflation, and compound interest (saving and debt). According to the survey, India's financial literacy is lower than the world average, but 'basically in line with other BRICS and South Asian nations (Ozili, 2020) [4]

1. Approximately 39 percent of those who have taken out formal loans are financially literate, whereas approximately 27 percent of those who have not are.
2. Adults in the wealthiest 60% of households are 26% financially competent, whereas adults in the poorest 40% of households are just 20% financially literate.
3. The income disparity is clear when the poll is broken down by concept: poor adults are 21 percentage points less likely than wealthy adults to properly answer the compound interest question. The difference in interest rates is 11 percentage points.
4. Financial literacy is found in 38 percent of adults with a tertiary education, compared to 30 percent of those with a secondary education and 18 percent of adults without a secondary education.

The data above illustrate that India lags far behind other countries when it comes to financial literacy. The RBI and other national organisations have carried out a number of projects to promote financial inclusion, including:

- Pradhan Mantri Jan Dhan Yojana (PMJDY)
- Pradhan Mantri Jeevan Jyothi Bima Yojana (PMJJBY)
- Pradhan Mantri Suraksha Bima Yojana (PMSBY)
- Atal Pension Yojana (APY)
- Pradhan Mantri Mudra Yojana
- Stand Up India Scheme
- Varishtha Pension Bima Yojana (VPBY)
- Venture Capital Fund for Scheduled Castes
- Credit Enhancement Guarantee Scheme for Scheduled Castes (CEGS)
- Card Acceptance Infrastructure
- Financial Literacy Centres (FLC)

Among the following programmes, Financial Literacy Centers are the least well-known but most effective tool for financial inclusion (FLCs). Financial literacy centres, or FLCs, offer financial education to the underserved. Farmers, rural residents, school-college students, illiterates, and those who are not part of the official financial sector are referred to as "financially illiterate."

5. Financial Literacy Centres – Origin

The Reserve Bank's Working Group to Examine the Procedures and Processes of Agricultural Loans recommended that banks examine constructing credit and technological counselling centres, either independently or with pooled resources, in its report (April 2007). As a result, farmers will be far better aware of their rights and responsibilities. In addition, a former Reserve Bank Working Group (Chairman Shri S.S. Johl) indicated that financial and livelihood counselling is critical for improving credit viability. As published in the Annual Policy Statement for 2007-08, the Reserve Bank advised the SLBC based on the recommendations of the above working groups (RBI, 2008) [6].

In India, financial literacy is considered as a demand-side activity that facilitates financial inclusion. A pan-India survey is being conducted by the Reserve Bank of India to assess financial literacy and inclusion. Farmers, small businesses, self-help groups (SHGs), schoolchildren, and the elderly are among the five target groups for which Financial Literacy Centres are developing individualised financial literacy programmes (FLCs). A pilot programme to construct 100 Centres for Financial Literacy (CFL) at the block level has been begun to augment the existing FLC infrastructure (RBI, 2015).

6. Pilot Project on Setting up Centres for Financial Literacy (CFLS)

Given the challenges of imbalanced distribution of current FLCs in a few states, limited outreach, and an exclusive focus on financial literacy at the ground level, the Reserve Bank is asking banks to set up CFLs at the block level on a pilot basis in a few states. At the block level, the following are the primary components of this CFL project:

a. Area - based approach (block)
b. Schedule of camps
c. Skilled workforce
d. Partnerships with NGOs
e. Use of technology
f. Common name and logo 'Moneywise Centre for Financial Literacy'

A pilot project to create 100 CFLs in ten states has been begun with the aid of the Financial Inclusion Fund. Partnerships with relevant NGOs/institutions are being investigated as a means of introducing more innovative and efficient approaches/methods for delivering financial literacy programmes.

According to the lead banks, Financial Literacy Centres (FLCs) should be established in each of the Lead District Manager (LDM) offices as soon as possible. By March 2016, 1,384 FLCs will have been established in all districts across the country. Banks may also consider establishing need-based FLCs in other locations, in addition to the aforementioned. Financial literacy programmes would be offered to all rural branches of Scheduled Commercial Banks, including RRBs (RBI, 2015).

Simple topics such as why save, why save early in life, why save with banks, why borrow from banks, why borrow as much as possible for income-generating activities, why repay on time, why insure yourself, why prepare for retirement, and so on will be used to teach financial literacy. FLCs and rural bank branches would organise outdoor Financial Literacy Camps at least once a month, with a focus on financially excluded people. For this purpose, it is also possible to recruit the help of seasoned non-governmental organisations (NGOs). Because the FLCs focus on basic financial literacy ideas, there is no risk of misselling. However, the officer who has been assigned to it will be responsible for it.

The financial diary must be created for distribution to the target audience, with the purpose of allowing people to better organise their money and understand how they spend by keeping track of their income and expenses. Posters with simple and appealing slogans graphically communicating the messages of money management, savings, borrowings, and basic banking products may be extensively exhibited before, during, and after the Financial Literacy Camps.

7. Targeted Group

Farmers, microentrepreneurs, macro entrepreneurs, school-college students, SHGs, and the elderly could all benefit from a tailored approach from the FLCs chosen. FLCs, on the whole, are aimed at persons who do not have access to traditional financial services. The Indian economy will become more efficient and stable as the number of individuals participating in the official financial sector expands, and we will be able to achieve long-term development through educating the public about money (RBI, 2015).

8. Funding

Rural branches of banks and FLCs Under the terms of this circular, banks were told that FLCs and rural branches are eligible for financing support from the Financial Inclusion Fund for financial literacy camps up to 60% of the camp's expenditure, up to a maximum of 15,000/- per camp.

It was agreed to encourage FLCs and rural bank branches to use handheld projectors to display audio-visuals and posters on financial awareness messages to boost the effectiveness of financial literacy camps. FIF would cover up to 50% of the cost of a handheld projector and portable speaker, up to a maximum of INR 5,000 per projector and portable speaker.

NABARD and RBI both together formulated and implemented the funding norms. Currently, NABARD is the apex body for funding the FLCs in India.

Operations under Financial Inclusion Fund as on 31st March 2018

Total Sanctions: Rs.3400.08 Crore

Total Disbursements: Rs.1568.74 Crore

The above data for the Financial Inclusion Fund show how essential financial literacy enhancement is to the RBI, NABARD, and the Indian government (RBI, 2008) [6].

9. FLC- Future

The Reserve Bank of India has advised bank-operated Financial Literacy Centres to conduct special camps on "going digital" through the Unified Payments Interface and the *99# service for a year beginning April 1, 2017, in light of the government's emphasis on increasing digital transactions following demonetisation. Aside from these camps, FLCs will continue to offer tailored programmes to five target groups: farmers, small business entrepreneurs, schoolchildren, senior citizens, and Self Help Groups. Customized content for each target group is in the works, according to the RBI, and will be provided with banks and FLCs as soon as possible.

Furthermore, rural bank branches will be required to hold only one camp per month (on the third Friday of each month after branch hours) covering topics such as the documents required when opening a bank account, the importance of budgeting and saving, and responsible borrowing, as well as learning about deposit accounts, maintaining a good credit score by repaying loans on time, and how to file a complaint with the bank and the Banking Ombudsman. In the rural bank branches' camps, the two digital platforms – UPI and the Unstructured Supplementary Service Data-based "*99#" service – will be covered. Banks establish FLCs as Trusts/Societies on their own or in partnership with other financial institutions. A bank can appoint recognised community people to serve on its boards of directors.

10. Conclusion

To a considerable extent, financial inclusion will aid in the alleviation of poverty and social isolation. It encourages both personal and business growth on an equal level. It protects your income and assets, as well as your health and life insurance and gives you a better grasp of your finances. All of this will aid in the development of businesses, increase GDP, and contribute to national growth. It also attracts multinational businesses to open offices and invest in business opportunities, leading in more jobs and growth. Financial Literacy Centres (FLCs) are essential for reducing financial illiteracy, which is a curse in a society with so many possibilities to flourish. The RBI and NABARD collaborate through the FLCs mechanism to bring those who are deprived of financial products into the formal financial system.

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