Keynote Address by
SBP Governor Mr. Yaseen Anwar
at the Launching Ceremony of National Financial Literacy Program
at Karachi, on 20th January 2012

Distinguished Guests, Ladies and Gentlemen!

It gives me great pleasure to launch the first ever National Financial Literacy initiative in Pakistan. The program will initially impart basic financial literacy to poor and marginalized people of Pakistan. It is my firm belief that the initiative will work towards improving financial inclusion and also serve the interests of all financial sector stakeholders. Therefore, I would like to thank and congratulate our partners including the Asian Development Bank, Pakistan Banks' Association, Pakistan Microfinance Network, Pakistan Poverty Alleviation Fund and Bearing Point for their support and collaboration to make financial literacy a key priority.

To set the stage, I would like to begin with a workable definition of financial literacy as developed by the Organization for Economic Cooperation and Development's (OECD) International Network for Financial Education (INFE):

"Financial literacy is the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate 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."

The definition highlights four key aspects:

First, financial literacy is about educating consumers so that they are knowledgeable about financial services and enables them to use this knowledge to evaluate products and make informed decisions. Therefore, financial education must aim to build consumers' awareness and knowledge of financial terms and calculations;
Second, for poor and rich alike, financial literacy is about empowering consumers through developing money management skills to enable them to make the most of their resources, and reducing vulnerability to overzealous retailers or fraudulent schemes. Therefore, financial literacy must enable people to make better financial decisions, to appreciate their rights and responsibilities as consumers of financial products, and to understand and manage risk;
Third, there is increasing evidence that those who are financially less literate are more likely to have problems with debt, are less likely to save, are more likely to engage in high-cost credit, and are less likely to plan for the future. Therefore, for regulators of financial services, it is necessary to develop programs to promote public awareness for helping people to make informed financial decisions and maintain market confidence; and
Finally, financial literacy program adds the missing demand-side dimension to financial inclusion strategies. Therefore, financial literacy can be a very effective tool to tackle the psychological, emotional and cultural barriers that prevent people from being financially included.

Many poor and non-poor people do not have a bank account and very few of them understand why this puts them at a disadvantage when it comes to their personal financial management. According to Pakistan Access to Finance Survey (A2FS), only 12 percent of the population has access to formal financial services. Whereas of the remaining 88 percent, only 32 percent are informally served and 56 percent are completely excluded. Moreover, according to the A2FS analysis, about 40 percent of the financially excluded population reported lack of understanding of financial products as the main reason for financial exclusion. This clearly identifies the need for financial education as a systemic area to be addressed to tackle financial exclusion in a big way.

Allow me to very briefly share the various conventional and non-conventional measures adopted by SBP to boost financial inclusion:

SBP introduced Basic Banking Account (BBA), a simplified financial product for low income consumers. BBA aims to reduce costs for consumers by removing more expensive facilities and requires no minimum balance, and neither does it have complex terms and conditions thereby reducing administrative and management costs.

SBP introduced Microfinance Banking Regulations in 2001 to specifically meet the demands of low income consumers. These regulations have been improved to a world class microfinance regulatory framework, ranked number one for the last two years in a row by "the Economic Intelligence Unit" of UK's 'The Economist' magazine.

SBP has adopted innovative solutions to overcome geographical barriers, including branchless banking through retail agents and harnessing technology via mobile-phone banking. The Branchless Banking Regulations were introduced in 2008, clearing the way for development of branchless and mobile phone banking services in Pakistan. The retail network of banks has overwhelmingly multiplied due to agents and mobile phone channels. In less than three years, there are now 18,000 branchless banking outlets, augmenting and surpassing the 10,000+ conventional bank branches.

In addition to these policy and regulatory measures, SBP has been managing various market interventions funded by donors including GOP, UKAID, and ADB. I would like to especially thank ADB and UKAID for actively supporting financial inclusion in Pakistan. Under the programs sponsored by these donors, a number of market interventions are managed by SBP including:

The Institutional Strengthening Fund (ISF) providing grant funding to Microfinance (MF) providers to top and middle tier Microfinance Banks (MFBs) and Microfinance Institutions (MFIs) for key investments in HR, IT, product development, risk management systems, business plans and branchless banking development.

The Microfinance Credit Guarantee Facility to link microfinance with financial markets for mobilization of wholesale commercial funding through partial guarantees.

Similarly, the Financial Innovation Challenge Fund (FICF) for grants to innovative projects and testing new markets to lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the larger demand for financial services.

And the Improving Access to Financial Services Fund which is supporting today's program.

These are mostly supply side interventions aiming to increase financial services by removing bottlenecks and have raised financial inclusion to a certain extent. However, what has been missing is a demand side solution – a program to impart financial education and awareness to consumers. This recognises that the very low level of financial awareness and confidence of financially excluded groups remains a strong barrier to their access and use of financial services. In addition, there are risks involved in creating new opportunities for consumers if the consumers are not proficient at making financial decisions. Therefore, going forward, SBP considers financial literacy as an integral part of the financial inclusion strategy.

Financial literacy has assumed greater importance in recent years for both developed and developing countries, therefore, best practices in this area are still evolving. However, synthesizing from the OECD's high level principles for financial education, some best practices are:

First, the financial education program must involve key players from the beginning. This may take a lot of time and effort due to slow decision making process but will ensure success of the program in the long-run. In particular, the consumers must be consulted to understand their preferences and identify appropriate curriculum and dissemination channels and tools. Therefore, financial education surveys must be conducted to appropriately identify the needs and to set a baseline for program monitoring. This will also help identify teachable moments for low income groups that may typically occur around the receipt of money, the need for credit etc.

Second, it is better to implement and earn quick wins to generate positive energy such as starting from a pilot launch initially before going national to gain the buy-in of all the stakeholders.
Third, the program design should be flexible enough to enable diverse stakeholders to join-in and create synergies. This will also give the program high visibility and help partners achieve their own goals. However, due care must be exercised that messages are product and institution neutral and can be used by all partners to create a multiplier effect.

Finally, the program must enjoy ownership by leadership from participating institutions that increases the interest of the topic with stakeholders, politics and media.

The National Financial Literacy Program (NFLP) is broadly in line with these guiding principles. NFLP pilot will impart financial education and awareness on six personal finance themes namely budgeting, savings, investments, debt management, financial products, branchless banking and consumer rights & responsibilities to about 50,000 beneficiaries from low income strata. We should not ignore the important peer effects of the direct beneficiaries which is very likely to be spread around a community. Those who have received education can pass on their knowledge to friends and family, thereby increasing the impact of the education.

The program has been developed after the Financial Literacy Gap Assessment Survey of beneficiaries. The survey has been helpful in development and adaptation of curriculum and dissemination strategy. The curriculum will also be translated into national and main regional languages including Urdu, Sindhi, Punjabi, Pushto and Balochi.

The Program is financed under the ADB-funded Improving Access to Financial Services Fund (IAFSF) and implemented under the oversight of the IAFSF Committee which has representation from SBP, Pakistan Banks' Association, Pakistan Poverty Alleviation Fund, Pakistan Microfinance Network, education sector, and the ADB. Upon completion of the pilot phase, an impact assessment of the pilot will be conducted by a third party. Based on the experience and assessment of the pilot, the program will be scaled-up to target more than half a million beneficiaries all over the country.

In addition to focused training sessions of beneficiaries, the dissemination strategy involves street theatres, board games, comic strips, activity-based competitions, website and media campaigns to reach out the masses on a larger scale. The training sessions will be sourced from banks, MFBs and MFIs based on their interest and pre-defined qualification criteria. In order to encourage and incentivize participation from partners, professional fees and out of pocket expenses of partners will be reimbursed from the program budget.

Besides involvement of local institutions, the project has formed partnerships with international financial education programs including Microfinance Opportunities, Finmark Trust, Association of Microfinance Institutions of Uganda (AMFIU), Sewa Bank, Microfinance Innovation Centre for Resource and Alternatives (MICRA), World Bank Institute, Aflatoun, and others.

Conclusion:

I would like to conclude with the thought that consumer protection and financial education should be vital components of any financial inclusion initiative. It is now clear that policies which focus entirely on changing the supply of financial products and services can leave consumers ill-informed, vulnerable and not willing to participate in financial markets. Moreover, the focus of financial literacy program should be broader than financial inclusion. It should aim to increase consumer awareness about their rights, obligations and mechanisms for recourse to build a fair, inclusive and robust financial sector.

In addition, I would like to encourage financial service providers to partner in the NFLP rollout and exercise proportionate level of accountability and responsibility to act in the best interest of their clients. Intermediaries should fully disclose their terms and conditions to clients before selling them a product or service.

Finally, I would like to thank all of you for coming together to show your commitment to promoting financial literacy in Pakistan.

****