

## **Financial Literacy and Credit Counselling Centres**

### ***Introduction***

1. The Working Group to Examine the Procedures and Processes of Agricultural Loans (Chairman: Shri C. P. Swarnkar), appointed by Reserve Bank, had recommended in its report (April 2007) that banks should actively consider opening of counselling centres, either individually or with pooled resources, for credit and technological counselling. This would make the farmers aware of their rights and responsibilities to a great extent. Bank branches should also display as much information as possible for the benefit of the farmers. The counselling centres should have the facility for on-line submission of applications, which may be forwarded to the branches.
2. Further, another Working Group constituted by Reserve Bank to suggest measures for assisting distressed farmers (Chairman: Shri S.S. Johl) had also suggested that financial and livelihood counselling are important for increasing viability of credit.
3. Based on the recommendations of the above working groups, and, as announced in the Annual Policy Statement for the year 2007-08, Reserve Bank advised the SLBC convenor banks, vide its circular dated May 10, 2007, to set up a Financial Literacy and Credit Counselling Centre on a pilot basis in any one district in the State/ Union Territory coming under their jurisdiction.
4. In the Mid-term Review of the Annual Policy for the year 2007-08, it was stated that a concept paper on Financial Literacy and Counselling Centres would be prepared detailing the future course of action and placed on the Reserve Bank's website for feedback. Accordingly, this concept paper has been prepared so that the Reserve Bank can take further action after obtaining feedback from the public. The paper has three parts: Part-A deals with matters relating to financial literacy, Part-B deals with those relating to credit counselling and Part-C outlines the suggested Scheme for Financial Literacy and Counselling centres.

### ***Part - A***

#### ***Financial Literacy***

5. Financial literacy or financial education can broadly be defined as "providing familiarity with and understanding of financial market products, especially rewards and risks, in order to make informed choices. Viewed from this standpoint, financial education primarily relates to personal finance to enable individuals to take effective action to improve overall well-being and avoid distress in matters that are financial"<sup>1</sup>.
6. Financial literacy goes beyond the provision of financial information and advice. The focus of any discussion on financial literacy is primarily on the individual, who usually has limited resources and skills to appreciate the complexities of financial dealings with financial intermediaries on a day to day basis.

7. Organization for Economic Co-operation and Development (OECD) has defined financial education as *“the 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”*<sup>2</sup>.

8. Thus, financial literacy is the ability to know, monitor, and effectively use financial resources to enhance the well-being and economic security of oneself, one's family, and one's business.

### ***Need for Financial Literacy***

9. Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding it increasingly difficult to make informed choices.

10. Financial literacy is considered an important adjunct for promoting financial inclusion and ultimately financial stability. Both developed and developing countries, therefore, are focusing on programmes for financial literacy/education. In India, the need for financial literacy is even greater considering the low levels of literacy and the large section of the population, which still remains out of the formal financial set-up. In the context of 'financial inclusion', the scope of financial literacy is relatively broader and it acquires greater significance since it could be an important factor in the very access of such excluded groups to finance. Further, the process of educating may invariably involve addressing deep entrenched behavioural and psychological factors that could be major barriers. In countries with diverse social and economic profile like India, financial literacy is particularly relevant for people who are resource-poor and who operate at the margin and are vulnerable to persistent downward financial pressures. With no established banking relationship, the un-banked poor are pushed towards expensive alternatives. The challenges of household cash management under difficult circumstances with few resources to fall back on, could be accentuated by the lack of skills or knowledge to make well informed financial decisions. Financial literacy can help them prepare ahead of time for life cycle needs and deal with unexpected emergencies without assuming unnecessary debt.

11. The OECD has brought out "Recommendations on Principles and Good Practices for Financial Education and Awareness"<sup>3</sup>, a brief summary of which is furnished at Annex-I. These recommendations are intended to help countries, both developed and developing, in designing and implementing effective financial education programmes.

### ***Initiatives taken by Reserve Bank of India***

12. The Reserve Bank 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, such as, school and college going children, women, rural and urban poor, defence personnel and senior citizens. It would be disseminated to the target audience with the help, among others, of banks, local government machinery, NGOs, schools, and colleges through presentations, pamphlets, brochures, films, as also through the Reserve Bank's website. The Reserve Bank has already created a link on its web site for the common person to give him/her the ease of access to financial information in English and Hindi, and 12 Indian regional languages.

13. A financial education site was launched on November 14, 2007 commemorating the Children's Day. Mainly aimed at teaching basics of banking, finance and central banking to children in different age groups, the site will also eventually have information useful to other target groups, such as, women, rural and urban poor, defence personnel and senior citizens. The comic books format has been used to explain complexities of banking, finance and central banking in a simple and interesting way for children. The site has films on security features of currency notes of different denominations and a games section. The games currently on display have been especially designed to familiarise school children with India's various currency notes. The site will soon be available in Hindi and twelve regional languages.

14. In addition, with a view to promoting financial awareness, the Reserve Bank conducted essay competitions for school children on topics related to banking and financial inclusion. The Bank has also been participating in exhibitions to spread financial literacy. Last year, it participated in the exhibition aboard the "Azadi Express" a train to commemorate 150 years of India's freedom struggle which began in the year 1857. The train during a year's run will cover several places in the country. Recently, the Reserve Bank launched 'RBI Young Scholars Award' Scheme amongst students undergoing undergraduate studies to generate interest in and create awareness about the banking sector and the Reserve Bank. Under the scheme, up to 150 young scholars would be selected through country-wide competitive examination and awarded scholarships to work on short duration projects at Reserve Bank.

## **Part - B**

### **Credit Counselling**

15. Credit Counselling can be defined as “*counselling that explores the possibility of repaying debts outside bankruptcy and educates the debtor about credit, budgeting, and financial management*”<sup>4</sup>. It serves three purposes. First, it examines the ways to solve current financial problems. Second, by educating about the costs of misusing a credit, it improves financial management. Third, it encourages the distressed people to access the formal financial system.

16. Credit counselling (known in the United Kingdom as debt counselling) is a process of offering education to consumers about how to avoid incurring debts that cannot be repaid. 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<sup>5</sup>.

17. Thus, credit counsellors help their clients find realistic solutions to their problems and agree on repayments that are achievable. Credit counselling is kept confidential. Counselling services are generally offered free or for a very nominal charge, so that no undue additional burden is put on the already indebted customer.

### **Global Scenario**

18. There are a variety of ways in which credit counselling has been accomplished in different countries. While the first well-known counselling agency was created in the United State in 1951, the concept quickly caught the attention of other countries and over the last several years, a host of countries have taken significant initiatives towards credit counselling. The international experiences with regard to credit counselling are indicated in Annex-II.

### **Need for Credit Counselling in India**

19. Recent times have seen a significant transformation of the financial landscape shaped by the forces of globalization, advances in technology, and greater market orientation and financial innovation. Retail lending has increased phenomenally in the commercial banking sector in recent years. As commercial banks shifted their focus from traditional need-based lending to a broad-based portfolio, retail lending became a mainstream business. There has been a rapid growth in consumer loans, housing loans, credit cards and personal loans. Bank credit to housing, consumer durables and personal loans (including credit cards) in urban and metropolitan areas, which covered 8.71 million accounts and stood at Rs.42,700 crore in 2001 rose to 25.5 million accounts totalling to Rs..2,58,000 crore in 2006. The credit growth to these sectors grew at a Compound Annualised Growth Rate (CAGR) of 43.3 per cent during 2001-06 compared to overall growth of credit of 23.4 per cent in the same period.<sup>6</sup>

20. In urban areas, with a burgeoning middle-class and changing lifestyle aspirations, more and more people are resorting to debt to finance their consumption needs, besides asset creation. In some cases, this could potentially lead to excesses, precipitating defaults. Such defaults could also be the fall out of circumstances beyond one's control. Costly medical emergencies, retrenchment from job, hardening of interest rates, etc could inadvertently raise debt burdens in some cases, not easily manageable within a given income stream. The aggressive marketing of personal loans and credit cards to vulnerable section of borrowers could also have consequences of over- indebtedness and rising NPAs.

21. In rural areas, especially in areas of rain-fed agriculture, vagaries of monsoon, coupled with lack of adequate risk mitigation policies lead to hardship for the rain-dependent segment of the farming population. This needs to be considered in conjunction with the fact that the levels of literacy in our country are still relatively modest at 65.4 per cent in 2001, with wide differentials between urban and rural areas. In 2001, the proportion of rural literate was about 59 per cent as compared to 80.3 per cent in the urban areas.<sup>7</sup>

22. The sharp growth in credit has accentuated indebtedness of households. In the case of farmers, as per the Situation Assessment Survey (SAS) of farmers conducted by the NSSO, of the 89.33 million farmer households estimated in 2003, 43.42 million (48.6 per cent) were indebted. The average outstanding debt per farmer household was at Rs.12,585. A State-wise analysis showed that in 2003, incidence of indebtedness was higher in states that had input-intensive or diversified agriculture. Total debt of farmer households was estimated at Rs. 1.12 lakh crore in 2003; of which Rs.65,000 crore was from institutional sources and Rs.48,000 crore from non-institutional agencies. Private moneylenders accounted for Rs.29,000 crore and traders Rs.6,000 crore. About Rs.18,000 crore of debt from non-institutional sources, a major portion of which was from moneylenders carried an interest rate greater than 30 per cent<sup>8</sup>. Although credit to agriculture from the banking system has substantially increased after June 2004, the informal finance still plays a significant part in rural areas.

23. As observed in the Report of the Expert Group on Agricultural Indebtedness (Chairman: R. Radhakrishna), indebtedness, in particular farmers' indebtedness, has long been treated as a distress phenomenon. It is indeed so if debt taken is not used for productive purposes. Debt can also become a distress phenomenon if the borrower's crop fails due to natural calamities, pests, use of spurious inputs, imprudent investments or other unforeseen reasons, or if production becomes uneconomic because of high input costs, stagnant technology and lack of remunerative prices which makes it impossible for the farmer to repay his capital and interest. The interest becomes a high liability if loan is taken from non-institutional sources like moneylenders at high rates of interest.

24. Regulatory and supervisory initiatives, on an ongoing basis, are being taken by the Reserve Bank to ensure soundness of the financial system and to bring the masses within the fold of the formal financial system. However, maintaining stability of the financial system also requires adequate consumer protection and education framework. Consumer protection and education initiatives empower consumers to be better positioned to take responsibility for their own well-being. In this context, financial literacy and credit counselling assume great relevance. There is an increasing need to develop follow-up services to enable distressed borrowers overcome credit delinquencies. Credit counsellors, thus serve as a viable and task-specific advisory and as an ad hoc intermediary between the borrower and the bank concerned. By providing sound advice to arrest deterioration of incomes by restructuring their debt, credit counselling offers a meaningful solution for borrowers to gradually overcome their debt burden and improve their money management skills. It needs to be recognized that financial products and services differ significantly from most other goods/services. Specifically, there is asymmetry in the access to information and bargaining power between the consumers and financial service providers.

25. In many cases, especially amongst the more vulnerable sections, individuals may not be able to articulate their financial situation adequately with the banks and negotiate a settlement. It will, therefore, be in the interest of the banks themselves to help individual borrowers through appropriate financial education and credit counselling.

26. Mechanisms in the form of Corporate Debt Restructuring (CDR) in regard to loans by banks and DFIs to large corporates are already in place to overcome their debt burden. Somewhat similar framework has also been provided to micro, small and medium enterprises. The extent of active interaction between individual borrowers and banks is, however, not readily available. Credit counselling is intended for individual borrowers and not for institutional borrowers.

#### ***Measures taken by Reserve Bank of India***

27. As stated earlier, the working groups chaired by Shri C.P. Swarnkar and Shri S.S. Johl, constituted by the Reserve Bank had emphasized the need for credit and technical counselling for increasing the viability of credit, particularly in the relatively under-developed regions. In the light of the recommendations of the two groups, and in terms of the Annual Policy Statement of 2007-08, the convenor banks of the State/Union Territory Level Bankers' Committees were advised in May 2007 to set up, on a pilot basis, a financial literacy and credit counselling centre in the State/Union Territory, coming under their jurisdiction. Further, based on the experience gained, the concerned Lead Banks were advised to set up such centres in other districts.

### ***Initiatives taken by some Banks***

28. A few banks have already taken initiatives in opening credit counselling centres in the country. An Internal Group constituted by the Reserve Bank to study credit counselling initiatives, visited some of the counselling centres in the state of Maharashtra viz., 'ABHAY' counselling centre<sup>8</sup> (an initiative of Bank of India); Disha Trust<sup>9</sup> (an initiative of ICICI Bank Ltd.) and Grameen Paramarsh Kendras<sup>10</sup> (an initiative of Bank of Baroda). The observations of the Internal Group are summarized in paragraphs 29 to 33 below.

29. The counsellors at these centres assist people on a face to face basis as well those who approach them over telephone, email, or by means of letters. Customers facing credit problems arising out of multiple credit cards, personal loans, housing loans and loans from societies approach the counselling centres for advice and guidance. The counsellors guide their customers and help them to take up with the banks concerned for rescheduling/ restructuring of loans.

30. Some of the common features of these centres are as under:

- The counselling centres are mainly funded by Trusts set up by banks or funded by the banks themselves.
- The counsellors manning the centres are retired or serving bank employees.
- Counselling is provided free of cost.
- The counselling presently provided by most of the centres is mainly curative in nature, being given after a crisis event had occurred.

31. The unique features observed in some of these counselling centres are:

- Arrangement for experts to guide farmers on modern farming methods, cooperative farming, marketing strategy, etc.
- Focus on credit related problems of urban clientele on account of credit card, personal loans, housing loans, and defaults on account of business failures.
- Manned by Agricultural Officers of the bank to provide awareness on various products and services of the bank.

32. Training and awareness camps are organised by some of these counselling centres to educate people of the need to save and to familiarize them with the concept of credit cards, impact of minimum charges, etc. As these counselling centres are housed mainly in the banks' premises, expenses incurred are mainly on account of payment of honorarium to counsellors; such honorarium ranged from Rs.12,000 to Rs.30,000 per month.

33. Although efforts are being made to hold training camps and creating awareness among the masses on the need for saving, planning expenditure and also about various banking facilities, etc., a lot more is yet to be done to popularise and scale-up the effort.

#### ***Issues in setting up of Credit Counselling Centres***

34. Some issues relating to setting up of counselling centres in India that need to be addressed are as follows:

- As credit counselling initiatives, presently, are individualistic efforts of the banks that have set up counselling centres as Trusts fully funded by them, there is an apprehension that these centres might be perceived as debt collection wings of the banks concerned. Thus, although it could be argued that a bank, by virtue of its nature of business, is, indeed, better placed to take up credit counselling initiatives, there is a need for appropriate 'firewall' between a bank and the counselling centre set up by it..
- A major constraint faced by the counselling centres in their effort to bring about a solution for the distressed borrowers is the lack of credence attached to the references made by these centres to banks, on the grounds that they have no '*locus standi*' in the matter. Therefore, there is a need for credit counselling centres to be empowered for liaising and negotiating with banks on behalf of their customers.
- As quality of service is an important aspect, it is desirable to have appropriately bench-marked quality standards for credit counsellors and counselling agencies. Like-wise, it would also be desirable to have a system of accreditation of counsellors. Once setting up of counselling centres gather momentum, they could consider forming an association of credit counsellors.
- Enlisting committed and well-trained personnel is crucial for success of counselling centres – this needs to be addressed/ ensured.
- Inadequate credit information/credit history of the borrowers or total lack of such information is another area of concern, which needs to be addressed.
- As lack of awareness is major stumbling block in such initiatives, it is necessary to give wide publicity to the concept of credit counselling and the free availability of such services.



## **Part - C**

### ***Scheme for Financial Literacy and Counselling Centres (FLCC)***

35. In the light of the various aspects/issues outlined in Part A and Part B above, and in order to make credit counselling more effective and popular, a scheme for setting up of FLCCs is suggested:

#### **Objectives**

36. The broad objective of the FLCCs will be to provide free financial literacy/education and credit counselling. The specific objectives of the FLCCs would be:

- (i) To educate the people in rural and urban areas with regard to various financial products and services available from the formal financial sector ;
- (ii) To make the people aware of the advantages of being connected with the formal financial sector ;
- (iii) To provide face-to-face financial counselling services, including education on responsible borrowing and offering debt counselling to individuals who are indebted to formal and/or informal financial sectors;
- (iv) To formulate debt restructuring plans for borrowers in distress and recommend the same to formal financial institutions, including cooperatives, for consideration ;
- (v) To take up any such activity that promotes financial literacy, awareness of the banking products, financial planning and amelioration of debt-related distress of an individual; and
- (vi) To take up any other activity that facilitates the above.

FLCCs should not, however, act as investment advice centres.

37. Debt counselling/credit counselling can be both preventive and curative. In case of preventive counselling, the centre would provide awareness regarding cost of credit, availability of backward and forward linkages where warranted, etc. The clients would be encouraged to avail of credit on the basis of their repaying capacity. Preventive counselling can be through the media, workshops and seminars. In the case of curative counselling, the clients may approach the counselling centres to work out individual debt management plans for resolving their unmanageable debt portfolio. Here, the centre could work out effective debt restructuring plans that could include repayment of debt to informal sources, if necessary, in consultation with the bank branch.

38. While the FLCCs centres would provide financial literacy and credit counselling, the activities of the Rural Development and Self employed Training Institutes (RUDSETI) towards skill development/capacity building could be dovetailed with FLCCs initiatives, for increasing the earnings/debt repaying ability of the distressed borrowers' families.

## **Coverage**

39. While credit counselling services may be provided by banks both in rural and urban areas, it may be observed that a large segment of the Indian population is resident in rural areas with literacy levels lower than in urban areas. The rural population is also more dependent on the informal sector for its financing needs. It is necessary that a segmented approach, rather than broad-based generalised approach to counselling for all types of borrowers, is adopted. The centres in rural areas could concentrate on financial literacy and counselling for farming communities and those engaged in allied activities. The centres in Metro/Urban areas could focus on individuals with overdue in credit cards, personal loans, housing loans, etc. Given their network and reach, the public sector banks could consider focusing on the rural areas, while the private and foreign banks could consider setting up counselling centres in urban areas.

## ***Organisational / Administrative Set-up***

40. To start with, banks may set up Trusts/Societies for running the FLCCs, singly or jointly with other banks. A bank may induct respected local citizens on the Board of such Trust/Society. However, serving bankers may not be included in the Board. FLCCs may be funded fully by the bank/banks to begin with. In order to have maximum coverage, FLCCs may need to be set up at all levels viz. block, district, town and city levels. SLBCs may discuss and coordinate with banks, both in public and private sectors, and arrive at a plan for setting up of FLCCs at different levels in a phased manner. However, to start with, lead banks may take the initiative for setting up FLCCs in the district headquarters. While the endeavour should be to keep costs as low as possible, in order to support banks in setting up FLCCs in rural and in urban areas where there is concentration of low income borrowers, cost-sharing through the Financial Inclusion Fund set up in NABARD could be considered. Once the system stabilizes the counselling centres could cover part of the cost by levying nominal charges on the banks whose borrowers have commenced repayments due to the credit counselling and debt management plan drawn up by the counselling centre. This would, in the long run, help the FLCCs to operate on self-sustaining basis. The counselling centres should maintain arms length relationship with the bank and preferably not be located in the bank's premises. In the rural areas, if for the sake of minimizing cost, the branch premises is used, to start with, it should be kept completely separate. The idea is that these centres should not be perceived as a recovery or marketing agent of the bank concerned, and bank clientele, even of other banks, should feel comfortable in voluntarily approaching the centres.

41. Counselling and debt management services may be provided free of charge to the customers so as to put no additional burden on them.

## ***Infrastructure***

42. Proper infrastructure would have to be put in place by banks with adequate communication and networking facilities. Separate cubicles for the customers could be set up to maintain the privacy/confidentiality of the discussions with the borrowers.

### ***Types of Credit Counselling***

43. In Australia, the Victorian Consumer Credit Review Report 2006 recommended that financial counselling services should include early intervention (preventive) counselling as well as counselling for consumers in financial crisis (curative counselling). In the US, the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 made credit counselling a requirement for consumer debtors filing for bankruptcy. Banks may evolve trigger points to refer cases where there are early warning signals to the counselling centres before taking measures for recovery. Timely intervention will help to arrest any further financial deterioration of the borrower.

### ***Mechanism for Credit Counselling and Debt Settlement***

44. Banks may encourage their own customers in distress or customers of any bank to approach the FLCCs set up by it. Information about such FLCCs can be provided through the various fora available under the Lead Bank Scheme.

45. The FLCCs may conduct open-house seminars either at the centre or at various places in the district for group counselling. Banks operating in the district can sponsor, wholly or partly, such seminars in areas predominantly covered by them.

46. For single-creditor-debts, the FLCCs could assist the borrower in negotiating with the bank concerned. In case of multiple credits availed of by individuals, the FLCCs may negotiate with the bank/s having the largest exposure to restructure the debt and the recoveries to be shared on a pro-rata basis. The FLCCs would, however, not involve themselves in recovering and distributing money. This would be left to the bank concerned, or the bank having the largest exposure to act on behalf of all the banks.

### ***Accreditation***

47. In Australia, practicing credit counsellors are required to be “accredited”. The Financial Counselling Association of New South Wales oversees the accreditation process. This helps to ensure the quality and reliability of their service. Accreditation would require the credit counsellors to meet benchmarked quality standards to ensure optimum outcome for consumers. The banks may consider suitable accreditation process, either through an existing organization like IBPS, or through an association of financial counsellors, when formed.

### ***Qualification and Training – Counsellors***

48. As counselling centres will play a crucial and responsible role in assisting and guiding the distressed individual-borrowers, it is necessary that only well qualified / trained counsellors are selected to man the centre on a full time basis. In his Budget speech for the year 2008-09, the Finance Minister indicated that individuals such as retired bank officers, ex-servicemen, etc. will be allowed to be appointed, among others, as credit counsellors. Credit counsellors should have sound knowledge of banking, law, finance, excellent communication and team building skills, etc. At present, knowledge and skill upgradation is mostly dependant on the initiative of the individual counsellors. Some training at the time of joining is being given by the banks, but this is focused only on the services provided rather than a full course on

financial management. Proper training and skill upgradation is essential for the counsellors to keep themselves abreast of the latest developments in the banking industry. Training is also required to be provided to the counsellors on an on going basis to constantly upgrade their skills. To ensure a regular supply of trained counsellors, it would also be useful if specialised courses on credit counselling and debt management are conducted by IIBF and professional institutions offering courses on banking and finance.

### ***Types of interface***

49. Counselling centres should be equipped to deal with requests received in person, by phone, e-mails, post, etc. They should have a toll free line, e-mail and fax facilities for easy contact. To maximize the outreach of the counselling centre, mobile units could also be set up to service all the blocks in the districts.

### ***RBI Guidelines***

50. Credit counsellors, at present, merely render advisory services to their clients and cannot directly approach banks/creditors to discuss/negotiate on behalf of their clients. In order that the system of credit counselling is taken forward, RBI may issue guidelines to facilitate the setting up of FLCCs by banks for group and individual counselling and to whom banks could also refer cases, apart from encouraging individuals to directly approach such centres. In its advice, RBI may sensitise banks to give due consideration to the Debt Management Plan prepared by such FLCCs before resorting to recovery measures. RBI may evolve a mechanism for dissemination of information on FLCCs set up by banks.

### ***Monitoring***

51. The functioning of the FLCCs in each State may be monitored by a Committee headed by the Regional Director of the Reserve Bank of India and feedback provided to the banks on a regular basis.

### ***Transparency / Disclosure of Information***

52. To help the customers make informed decisions, all banks may display on their websites particulars of all fees, interest rates, yields and other features of standard products offered by them. The Reserve Bank may also display the consolidated data on its website for one-stop information on all banks, and develop, in association with the Indian Institute of Banking and Finance (IIBF)/IBA, a dictionary of common terms used to describe and compare products so that they are easily understood.

### ***Information Sharing***

53. At present, there is relatively easy access to personal finance, particularly availability of multiple credit cards to a customer, though he may be a defaulter to some of his banks. It is imperative that credit information companies are set up and up-scaled quickly to provide both positive and negative information to the banks. The FLCCs, in turn, could obtain comprehensive credit information from the concerned bank or the bank having the largest exposure to the defaulting borrower.

## **Publicity**

54. A great deal of emphasis needs to be given by all the institutions to educate the public of the various schemes/ facilities. All forms of publicity, viz. press conferences, workshops, publications, websites, road shows, mobile units, village fairs, etc. should be actively explored. A suitable budget needs to be provided by all banks for the purpose. In order to go ahead in a planned manner, a Standing Committee on Financial Literacy and Counselling may be set up by the Reserve Bank with members from the Reserve Bank, NABARD, IBA, BCSBI, CIBIL, NGOs working in the area and consumer organizations; this will foster greater collaboration in areas relating to consumer education and protection of consumers' interest.

55. The list of counselling centres should be placed on the websites of IBA, BCSBI, RBI, etc., and regularly updated.

56. In order to make Financial Literacy and Credit Counselling a success, it is necessary to create widespread awareness about the concept .and, more importantly, for banks to appreciate the overall benefits of such initiatives. It is necessary to have the total and complete involvement of the top management of banks in this initiative. The Reserve Bank, therefore, may convene a meeting of CEOs of major commercial banks, IBA, NABARD, and national level associations of cooperative banks, apart from experts and leading NGOs working in this field to discuss the concept, scope, modus operandi, etc. of providing financial literacy and credit counselling services, and thereafter issue detailed guidelines on the subject. Offering credit counselling could be made a part of fair lending code for banks in due course.

***The OECD's "Recommendation on Principles and Good Practices for Financial Education and Awareness"***

- (i) Governments and all concerned stakeholders should promote unbiased, fair and coordinated financial education.
- (ii) Financial education should start at school, for people to be educated as early as possible.
- (iii) Financial education should be part of the good governance of financial institutions, whose accountability and responsibility should be encouraged.
- (iv) Financial education should be clearly distinguished from commercial advice; codes of conduct for the staff of financial institutions should be developed.
- (v) Financial institutions should be encouraged to check that clients read and understand information, especially when related to long-term commitments or financial services with potentially significant financial consequences: small print and abstruse documentation should be discouraged.
- (vi) Financial education programmes should focus particularly on important life-planning aspects, such as basic savings, debt, insurance and pensions.
- (vii) Programmes should be oriented towards financial capacity building, and appropriately targeted on specific groups, and made as personalised as possible.
- (viii) Future retirees should be made aware of the need to assess the financial adequacy of their current public and private pension schemes.
- (ix) National campaigns, specific websites, free information services, and warning systems on high-risk issues for financial consumers (such as fraud) should be promoted.

***Credit Counselling- Global Scenario***

There are a variety of ways in which credit counselling has been accomplished in different countries. The first well-known credit counselling agencies were created in 1951 in the United States when credit grantors created the National Foundation for Credit Counselling (NFCC). Their stated objective was to promote financial literacy and help consumers to avoid bankruptcy. Credit counselling, however, came into its own as a result of the passing of the Housing and Urban Development Act in 1968. Under this Act, the US Department of Housing and Urban Development was allowed to authorize public and private organizations to provide counselling to mortgagors. The resulting services and infrastructure led to the development of the credit counselling industry.

In 1993, the Association of Independent Consumer Credit counselling Agencies (AICCCA) was founded in the United States, citing a need for industry-wide standards of excellence and ethical conduct. This formally organized the NFCC's competition. The AICCCA was formed from the group of counsellors who favoured telephone delivery of debt management programmes. 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 practised both phone and face-to-face processes with some agencies using large inbound call centres driven by mass media advertising.

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 programme with an approved non-profit budget and credit counselling agency. Such a programme may include, but is not limited to, one counselling session conducted by phone or over the internet.

Quickly, the concept caught the attention of other countries and over the last several years, a whole host of countries have undertaken significant initiatives towards credit counselling. The Consumer Credit Counselling Service (CCCS) in the UK, established in 1993, helps consumers with budgeting and better money management as also their debt repayment plans. Funding for CCCS comes from the businesses in the community, which benefit from repayment they would not receive if the debtor defaulted. In addition, there is also a National Debt Line through which a bank customer can get free financial advice. In fact, the Banking Code in the U.K provides that member banks shall discuss financial problems with customers and together evolve a plan for resolving these problems.

Canada established a non-profit counselling organization in 2000. Termed Credit Counselling Canada (CCC), the organization seeks to enhance the quality and availability of not-for-profit credit counselling for all its citizens.

The Bank Negara Malaysia has established a Credit Counselling and Debt Management Agency (CCDMA) to provide credit counselling and loan restructuring advice to individuals. The establishment of CCDMA is to proactively ensure that the household sector continue to be resilient by providing an avenue for existing and potential individual borrowers to seek advice and assistance on managing their credit while at the same time promoting a sound and robust banking system by facilitating debt repayment efforts and minimizing incidence of non-payment arising from poor debt management. The CCDMA will provide free credit counselling, education and debt settlement services to consumers. The CCDMA will also assist consumers to proactively manage their debt via out-of-court procedures based on agreed repayment plans between the creditors and the debtors.

With rising personal bankruptcies, primarily on unsecured debt, Credit Counselling of Singapore (CCS), established in 2003, is meant to assist financially distressed consumers.

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