Getting Inside the Financial Loop....

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Abstract

Governments across the globe are gradually identifying the benefits of a financially literate population and its accessibility to a wide array of suitable financial products and services.

Many developing countries including India have endorsed strategies that include financial protection of consumers through financial literacy and inclusion,and a complete financial integration.

" Financial exclusion "can be an impediment for equitable and inclusive economic growth and development of a nation. It is a process by which specific segments of the population are denied/ deprived of access to basic formal financial system. In addition to this, financial exclusion is because they lack the want/ desire to access financial products and services due to conservative behaviours,attitudes and preferences ,which may be due to the way financial products are designed. Studies have shown that the design of financial instruments / products addresses to merely cognitive factors such as income levels, level of financial knowledge and awareness ,ignoring non- cognitive behavioural aspects of individuals.

Given that a large segment of the population ,especially in developing economies, remains outside the" financial loop ", financial inclusion not only refers to a process by which financial products are made accessible to the masses, but also, it means that the product design and delivery is innovative enough to attract, convince and lead individual financial behaviour in the desired direction. While not overruling choice, these products should be a blend of saving promoting features. For example, " commitment savings accounts" , or continuous signs, messages and signals demonstrating incentives to encourage savings .Financial product design should ,thus be based on an analysis of individual behaviour. To this end, insights from behavioural economics should be integrated into the operations of financial institutions and into the process of financial innovation of products and instruments.

The paper analyses the importance of studying individual behavioural and attitudinal patterns and incorporating the result of these studies into financial product design which would encourage their widespread acceptability and adoption, thereby leading to greater financial well being and inclusion.

Keywords : Financial inclusion, Financial products, Behavioural Economics.

Financial Behaviour and Product Design

Financial behaviour is primarily influenced by characteristics of an individual's personality. Thus, Financial innovation strategies on product design should be based on extensive studies and surveys of behavior across households / individuals . Analysis of behaviour include aspects such as " thinking before making a purchase ", " paying bills on time and budgeting", " saving and borrowing to make ends meet ", and so on. Economic literature reveals how self- motivation drives human beings to achieve certain goals. Several studies have also shown that personal attributes can be conditioned by external and internal motivation(Gagne & Deci,2005).

Financial products should hence be designed and delivered in a way that could elicit a positive response of an individual ,towards their acceptability. The product design should be innovated in such a way that it is capable of instilling confidence, satisfaction and enjoyment of actions, among the ultimate user consumers/ adopters.

The way a person behaves has a significant impact on his/ her financial well being and is an important determinant of success of a nation's financial inclusion programme. Financial products' design should be able to not only capture but also incorporate behavioural aspects of individuals and should be capable of suiting their needs at all times, thereby facilitating their easy and timely adoption.

PreferencesandAttitudes

Non- cognitive factors such as attitudes, traits and preferences influence/ determine financial inclusion . For example, if people have a rather negative attitude towards saving for their future ,it is likely that they would've less motivated to adopt saving conducive financial products and instruments. Similarly, if people priorities short term wants then they would not be motivated to undertake longer term financial plans.

Financial product design should be based on indices measuring attitudes and preferences of individuals. A wide range of financial products should be designed, each for a specific targeted client group in accordance with the study on each group's preference and trait pattern. In designing a specific financial product, there is a need to tread with caution. If say the targeted client group shows an attitude of conservatism towards money and is from the most vulnerable low income segment of the population, then even impact factors of particular products should be carefully analysed and accounted for in the overall design such that any sort of "financial abuse ", is not promoted within the said product/ instrument. This poses to be a major challenge for the credibility and sustainability of any financial system and therefore has serious implications on the financial inclusion objectives. If financial products are designed ,ignoring careful analysis and study of individual attributes and not addressing to the problems faced by the masses, then it could lead to a long term loss of confidence in the financial system altogether and complete collapse of financial integration in an economy.

Conclusion

Investment in financial education is understood as investment in human capital. Until now, theoretical models have shown that integrating financial literacy into the system and developing policies designed to encourage financial literacy have positive implications in terms of inclusion and well being . The paper does not undermine the above stance but is an attempt to offer an alternative view by advocating the importance of incorporating the impact of non- cognitive factors such as behaviours ,attitudes and consequent responses in the design and development of financial products so that they are in sync with financial mindsets of the majority and thereby help in the generation of their acceptability and widespread adoption ,by making them suitable to the needs of many, thus addressing to the problem of financial exclusion or getting them into the so called "financial loop ."

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