The importance of financial literacy in the development of the education system and the society

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Abstract

The ability to understand how money works is needed to be understood by the all students; regardless of their choice of course they study. The need to study and understand the concept of money functioning as become all the more necessary as the volatility around as increased. We teach students to become more competent. The curriculum over the years has changed according to the demand and need of the job market and society. In the institution our aim is well educated and informed citizen so they can become an asset. Similarly if the student is financial educated he can plan his money in better way, specially his retirement. With the financial knowledge he can't only secure his future, but also became an asset to his family and help in the development of the country. Many times students studying finance related subjects fails to make a sound financial decision. World is becoming a global village any crises in any country affect us directly or indirectly hence money management becomes necessary and need to be taught at ground levels. Many studies show high widespread of financial illiteracy among Indians and as an education institution it is our duty to introduce and implement various methods and measures at the university/ college levels to increase and enhance the knowledge related to money and make our youth financial literate. The goal of this paper is to provide a brief view of the current status of financial literacy in India and compare it with other countries with the help of various survey results. This paper some suggestions are put forward to make our financial education programs more effective.

Keywords: education, money management, financial literacy

Introduction-

The need to study and understand financial education has increased in recent years, with enhancement of technology, speed with which information spread, financial instruments and complexity to make things simple. The economic, social and political environment has changed drastically. The current volatile and highly sophisticate economic conditions have raised serious concerns about the financial security of Indians especially millennial, who have no or little access to pension plan nor proper retirement plan, buying/financing a house in the highly overpriced real estate market plus eroding purchasing power of money because of high inflation; thus to need for proper money management is necessary. We need to inculcate in the millennial with knowledge and skills to withstand and take advantage of large upward and downwards swings in business cycle, which affect money. Financial literacy is important to achieve financial stability.

Investment and saving are crucial to increase the wealth and hence economic development of the country, high level of savings increases the chances of achieving a higher GDP.

There has been increase in the varieties of financial products offered by banks, investment and insurance companies; hence one should have fuller knowledge about how it works. To achieve financial stability and security, an individual must know where to invest and how. Investor's decision of not investing in right investment may lead to others problems like debt trap, low retirement fund, under

insurance etc. The need for financial literacy is greater in India because of high level of illiteracy and large section of society still depends on informal financial market of their money needs. Financial literacy empowers the individual in handling money in better way.

The early one invests the better it is to manage the future finances and avoid for any finance related distress. Financial literacy must be added as a part of school and college curriculums. Greater the number of wealthy individuals means more financially healthy economy; less burden on government to take of its citizen and focus on more productive assets. Different financial products complicates the money management process, hence an individual with limited financial knowledge cannot differentiate and choose the safe assets which requires less knowledge, thus indicating to make financial literacy programs more robust. There is an urgent need for enhancing the financial knowledge amongst people.

OBJECTIVES OF THE STUDY

The objective of the research is to study the level of financial literacy in India by using literature based analysis and to identify different measures to improve financial literacy at undergraduate level to make financial literacy programs more effective and practicable.

LITERATURE REVIEW

The OECD/INFE defines financial literacy as: 'A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing. Money runs lives, families and hence economy, it is important for social, economic and political well-being of the society. Thus money needs to be carefully saved and managed for future. Despite its importance, many studies indicate that still majority of the world's population suffers from financial illiteracy and needs to be urgently corrected. Financial Literacy Survey of 2016 conducted by Central Council for Financial Services Information, Bank of Japan found out that the percentage of correct answers given to true/false questions was 55.6% and the percentage of correct answers given to true/false questions was the lowest for the 18–29 age groups, indicating practical knowledge plays important role to understand money. Bhushan and Medury (2013) found financial literacy level of 58.30% among salaried class individuals indicates low level of finance related knowledge plus gender differentiation can also seen as male respondents financial literacy is 68.8% while female's respondents is around 31.2%. Cole et al. (2008) measured the level of financial literacy, and the demand for financial services in India and Indonesia. They found positive relationships between financial literacy and better financial behavior. Survey suggests financial literacy leads to household well being. India introduced a financial inclusion programme at a large scale called Pradhan Mantri Jan Dhan Yojana (PMJDY), made access to a bank account a close reality, but the level of operation of accounts remains still low. India ranks 23rd in financial literacy among 28 countries according to Visa Global Financial Literacy (2012), in which India scored 35 out of 100. A study focusing on millennial found: only one in-four exhibited basic financial literacy (Pricewater house Coopers, 2015). MasterCard Financial Literacy Index (2013), found in terms of financial literacy, India is at the bottom among 16 countries in the Asia-pacific region scoring 59 index points. In a survey conducted by Shim, Barber, Card, Xiao and Serido (2010) with undergraduate students found that, while some students wanted to about better management of their finances, others engaged in risky behaviors. According to the authors the students' socioeconomic and demographic situation have influence on the financial literacy. Mandell (2009) has also indicated that financial literacy leads to an improvement in financial decision-making.

Financial Education Programs in India

The Reserve Bank of India has undertaken a project named "Project Financial Literacy". The aim of the project is to spread information about the banking concepts to different target groups, including, school and college going children, women etc. The Reserve Bank has issued (2013), a comprehensive Financial Literacy Guide, in which information regarding the basic concepts of financial products and services need to be provided by banks. The financial literacy guide consists of Guidance Note for trainers, Operational guidelines for conduct of financial literacy camps, and financial literacy material, including posters. Simple steps initiated by RBI like distributing of financial diary to be distributed to the target audience, which will help them to keep a record of their income and expenses, is a great step towards improving financial literacy. SEBI has also prepared much material to impart financial education to schools and college students. Insurance Regulatory and Development Authority (IRDA) has taken many efforts in the area of financial literacy. IRDA conducts annual seminars on policy holder protection. IRDA's initiated an Integrated Grievance Management System (IGMS) which handles data on the grievances of people across the country and try to find the areas of problem and solve the issue. UNDP appointed NABARD as an implementing partner to achieve financial inclusion in India. Financial literacy initiatives by government and non- government agencies need to be taken at large scale to strengthen financial literacy and financial inclusion in India.

Financial Literacy in India

The level of financial literacy among young adults is generally low, because they have less money to understand and use it. Understanding the phenomena of managing money is crucial for the betterment of people and empowering them financially. Young adult have significant gaps in their personal financial knowledge. Even though they have greater access to more information and technology today, but the financial world has grown more complex, and there are more choices and conditions. Unfortunately, most young adults don't know how to manage their finances because they were never taught how to do so (Collis and Laursen 2004; De Goede et al. 2009). Generally Indian parents advise their kids not to play with money and put it in bank or buy gold; as other financial products are too risky that is they can erode the principal value of money. But they don't teach investing in low yield is itself risky as low yield will generally not help in managing future plan of the child which is equally dangerous. Most high schools and colleges lack courses that teach this important skill. Individual who lack knowledge make more financial mistakes and hence avoid any sought of financial loss and generally get stuck to the basics. Lyons (2003) found that one in three students reported his financial situation was somewhat affected by a college degree. If parents had not done extensive learning about money management then they may mistakenly have thought that banks are the best for investing money and investing in stocks is like burning money. Students should be taught about spending, saving and investment both at education institution and at home. Arnett (2004) suggest that the emerging young adult period is a time when parents and children form a new relationship. Many a times people follow one's financial advice without applying their own knowledge, this form of investment is more dangerous and can create panic. A good financial knowledge leads to creation of more transparent and well functioning financial institutions which again will create more financially sound households. With increase in volatility in the job market-it becomes responsibility of the individual to take good care of their finances, which will help to secure both present and future of the individuals. Helping to inculcate the finance related knowledge from high schools is important. The over caring love of parents for their child, doesn't allow them to make independent financial decisions as parents still take care of their child's financial needs. This attitude among households holds back the independent thinking of the child in regard to money management. In most western developed countries children are given allowances and after age generally 16+ are allowed work and to make simple financial decisions; this practical skills help them in future as they understand the value of money at an early age. Financial knowledge is especially important in times where increasingly complex financial products. Increase in government's efforts to increase the access to financial services, as simple as opening the bank account. Providing financial education to college students can help them prosper in college and beyond. As an institution we focus on making the students learn about the skills that can help them earn good money, but little is focused on how to save, invest and grow that money. Scanlon et al. (2007) showed difficulties to manage the finances because many students for the first time manage their own expense and have no experience regarding it. Money management programs should be implemented. The financial education learned in college has an important influence on their financial situation after college.

Measures that can be taken at the University level

- Workshops on loans- education loan are expensive and tricky. The cost of higher education is continuously increasing if students want to pursue higher education especially in abroad, he/she must be able to understand this loan. If the student is not prepared regarding the financial budget it can lead to serious consequences in the future.
- Understanding the terms and conditions of the financial agreements by the industries experts will help students to make informed financial decisions. Often one don't read terms and condition or fail to understand them properly. Thus making students aware of it at early age will make it a habit rather than compulsion.

- Financial counseling center- for the parents, the change starts from the home. First the parents need to be educated about changing financial scenario. They have to made aware of new financial products. This will help to broaden the view related to finance.
- Tutorial workshops- regularly conducting workshops in form of tutorials, using latest technology to understand how capital and money markets work, how can we predict the future movements, what are the signs to look for etc, can help create positive financial attitudes and behaviors among students.
- Online tutorials- which will apply easy and anywhere access to solve finance related problems. Technology should be used to teach finance in a better way. Students can put query at their conveyance will give them ability to ask question without hesitation.
- Alumni meeting for financial stressed students can be conducted on regular basis, where alumni can meet discuss their financial problems, discuss their finance related success or unsuccessful stories, which will act as case study for the others.
- Regularly conducting online survey- where students will fill the questionnaire related to finance. This will help in reviewing the process for improving the financial education among college students plus the status of financial literacy will get a little clear.
- Teaching financial education as a subject irrespective of the student's choice of course, will help to develop a more positive attitude towards finance.
- Understanding the external environment into the picture, allows exercising of financial capability by individuals with better sense and capability.

Measures that can be taken at the Individual level

- Differentiating between long term and short term investment- the financial goal must be matched by the financial investment- example preparing for retirement plan requires investing in sound long term investment like long term deposits.
- The inflation rate has an effect on savings. Students should take into account real interest rate rather than nominal rate to better manage the finances.
- Insurance- one should understand the importance of insurance, India still remain an under-insured country. Job market and economies are risky, hence getting insured is necessary.
- Teaching simple techniques like compound interest can help save a lot of money. 1% p.m is not actually 12% pa but more than that. Moreover on average 6% is received pa from saving account. These types of numerical example of the real world example plays crucial role. Such examples give wider perception on how to handle real life finances.
- Simple things like reading and understanding fine lines of agreements before investing is a crucial step. Understanding the rights, the terms and conditions.
- Financial education with help of flip learning- it is an effective method when the resources are few.
- Financial education taught as a topic. Such steps will help students realize how important financial management is.
- Videos related to finance can be shown to students. It is an interesting way to teach and attract students towards financial world. Videos will also help students aware of new financial products and risk/return associated with them in a fun manner.

- Seminars on financial crises, case studies will make students aware of different scenarios happened in the world.
- Students should be taught importance of paying credit card debt on time, as small penalties can get accumulated to big amount in future.
- Importance of tax saving schemes- understanding and taking advantage of tax saving schemes and investment is necessary for proper management of the finance. Example Under current tax structure a maximum amount of rupees 1,50,000 is exempted under 80(C).
- Importance of diversification- investing all in one security even in a safe asset may not help in achieving financial goal of an individual.
- Simple step like maintaining a diary for daily expenses will make students enlightened about how money will be managed in better way so that have some money left for rainy days.

Conclusion

Financial literacy is becoming an important element for the stability of economic and financial growth of the country. Financial literacy is an essential component of a successful adult life. It is therefore important that young adults begin to learn about finance at early age to manage money in the best possible manner. Parents play a crucial role to impart knowledge about finance to their children directly. Efforts need to be made at university to inculcate financial literacy among students so that they can not only manage their personal finance properly but also of their family members. Financial literacy programs must teach not only the definition and techniques but also practical knowledge to use these resources. Acquiring financial literacy is becoming a key skill development. It core responsibility of parents and financial institution to inculcate financial literacy among young adults to better future for all. Financial literacy helps in improving a person's confidence, knowledge, and may help them make better decisions.

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