

Literacy in Money Management - A Path to Sustainable Growth

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Abstract

Understanding the language of money is an integral part of the sustainable development of an economy. The world of financial markets plays a major role for transforming developing economies into global powers. If we look at the future, fancier market models may be developed; those even more accurate than what they are today. However, the incremental value addition in this model creation industry comprises of a hindrance in the form of lack of awareness and education of the Indian masses. Dynamism stimulates a sense of continual excitement and with the global environment becoming more complex; market participants seek a far more sophisticated education imparting mechanism to tackle financial risks and achieve sustainable growth. The Indian financial markets hold immense potential for coming generations. However, we are driven by too much leverage and too little confidence as we lack the power of knowledge. To avoid ending up with an overleveraged economy further leading to credit bubbles and economic imbalances, the need to address knowledge dissemination concerns from a complex global perspective rises further. This research is mainly to set forth the path toward building a robust financial literacy promotion mechanism to build a healthier and confident economy. The study mainly focuses on the initiatives in this area by eminent organizations and their contribution toward encouraging sustainability through literacy of managing money. The study would involve primary and secondary methods of data collection to analyze current trends and recommend improvisations in the same.

Keywords

Money management, Financial literacy, Sustainability, Human capital enrichment, Initiatives

A Look at the Real Meaning of Sustainability

Sustainability in a general sense can be seen as meeting the needs of the present without compromising the ability of future generations to meet their own needs. Environmentalists have long warned that our current patterns of economic growth and resource consumption, so severely threaten the earth's carrying capacity that ecological collapse is likely, if not inevitable.

Human Intellect seeks Sustainability

There's lot being done to sustain Environmental and Ecological balances, but in this study we look at a level higher by looking at sustaining the human intellect to be able to achieve these sustainable balance goals.

Alfred Marshall says that "The most valuable of all capital is that invested in human beings." It is for sure that innovation and intellectual power are going to be the key to the future. If adequate steps are being taken toward sustaining the human intellect, the world is bound to overcome any kind of challenges. In turn, we arrive at concepts of building a robust money management mechanism to bring about control and success in the global markets. This brings us to financial literacy. The base is financial education, yet the concepts highlighted can be put to use for any kind of financial literacy.

The Indians are more risk averse than their global counter-parts. In an era of accelerating GDP and rising per capita growth, the financial literacy has become more critical than ever before such that we all reap the tangible benefits of the nation's economic prosperity. Financial inclusion has been quite high on the governmental agenda, given its emphasis on widening the Banking and Financial services network across the country (Punjabi, 2015).

With increased access to more service providers and more products, people confront options they do not always understand. When their existing knowledge and competencies are not applicable to an ever changing financial landscape, people are limited in their ability to act. There are often three terms used in this regard - financial literacy, financial education, and financial capability - whose overlap can cause confusion. They are, however, distinct pieces of a puzzle, parts of the whole, or steps toward the goal of financial inclusion. The financial literacy is associated with the consumer who has a responsibility to inform himself of the products he purchases and to understand the contracts he signs. It incorporates knowledge, skills, and attitudes. The financial education is a key tool to reach this multidimensional goal. Financial capability, on the other hand, is about the context; it engages the financial services sector in its responsibility to offer the right products to its various target markets. Financial inclusion implies an alignment of supply and demand, where financially literate consumers have opportunities to apply their knowledge in a marketplace of appropriate product options. These three terms are further clarified below.

Financial literacy

Definitions for this term vary by source and context. Most originate in developed countries where financial literacy has received far more attention than in the developing world. However, the common foundation is the importance of having the skills and knowledge to make informed financial decisions. It includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges associated with life events such as a job loss, saving for retirement or paying for a child's education.

The financial education is the process of building the knowledge, skills, and attitudes to become financially literate.

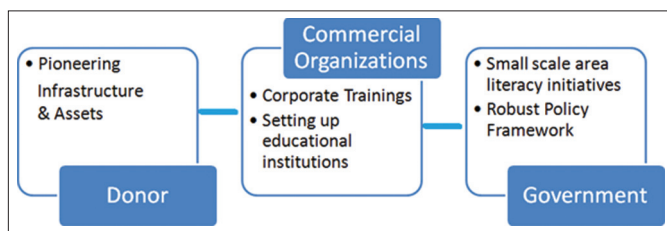
It introduces people to good money management practices with respect to earning, spending, saving, borrowing, and investing. The role of financial education is to enable people to shift from reactive to proactive decision-making and work toward fulfilling their financial goals. By broadening people's understanding of financial options and principles, financial education builds skills to use financial products and services and promotes attitudes and behaviors that support more effective use of scarce financial resources. When linked to the financial inclusion agenda the implicit argument is that financial education will motivate the learner to adopt available formal financial services. Thus, financial education is a tool to achieve financial literacy and more; financial literacy is essential to both effective consumer protection and to our final definition - financial capability.

Financial capability includes the "use factor" - the ability and opportunity to use the knowledge and skills implied in financial literacy. Financial capability is a broader concept that necessarily links individual functioning to the entities of the financial system. On the institutional side, it assumes that financially literate individuals have access to:

- User-friendly financial service providers catering to the low-income consumer
- Appropriate products and services (Cohen 2011).

Many economies now embrace financial education as a service that adds value by boosting their existing businesses, increasing customer awareness and loyalty, and promoting increased client use of financial products.

The Indian economy has shown consistent growth and is on the way to become a financial super power. India is set to witness strong growth in the coming years with the boost from policy measures and budgetary allocations. Despite the global meltdown effect of last 2 years, India is expected to be the second-fastest growing economy in the Asia Pacific region. The productivity growth rate of the Indian economy in the Asia-Pacific Region is estimated to be around 8% and is expected to sustain until 2020. The increasing globalization of our economy has brought in its wake a high demand for talented global managers. Corporations across the world have demonstrated a need for quality financial knowledge, education, and training for facing the vibrant financial market industry around the world.



Basic Components of Financial Literacy

Basic financial education

The basic financial education consists of fundamental beliefs of financial well-being. An attempt has to be made to convey these basic concepts to everyone especially to those who are financially excluded at present. However, the modes of delivery can be different depending on who is the recipient. School children

can be reached best through school curricula, employees can be reached through employers, homemakers through NGOs, and so on. The content and method of presentation is also to be tailored according to the target groups. A large number of financially excluded rural masses will have to be reached through the network of rural branches of banks.

Sector focused financial education

This component is to be targeted to largely financially included consumers. To begin with four sectors can be planned, i.e. banking, securities market, insurance, and retirement planning. Education for the actual and potential securities market investor may consist of basics of stock exchange mechanism, clearing and settlement mechanism, dematerialization and depositories, and role of various intermediaries such as brokers, merchant bankers, registrars, transfer agents, underwriters, etc. Potentially risky areas such as margin trading and derivatives need to be addressed. Various instruments such as shares, mutual funds units, bonds, and pension plans, need to be explained.

Product education

The more important part of the product education lies with the manufacturer of the product himself.

The product education should be delivered primarily at the point of sale.

Content of Financial Education Attitude

Attitude training should also form a part of financial education. The Financial education must seek to impart responsible attitudes.

Financial competencies

Financial competencies such as interest calculation, compounding, and the time value of money should be identified. Achieving these should be the primary aim of financial education.

Risk assessment and confidence

Most of the time people are not able to achieve financial well-being because of their inability to properly assess the true risk in a deal. They lack the confidence to take a well thought out risk and their financial assets consistently under perform. Building such confidence should be part of financial education.

Financial Education for the Illiterate

Illiterate persons are in most dire need of financial education. Illiterate people need not wait for alphabet knowledge as money has its own language, in the sense that even illiterates understand the importance of money. The conventional curriculum, methodology, and delivery channels have to be different and innovative for giving financial education to the illiterate. The importance of savings, borrowing within limits and using formal financial intermediaries needs to be explained.

Delivery Channels for Financial Education

School curriculum

Financial education is an important life skill. Therefore, our educational system should equip students with these necessary life skills, without which, education will be incomplete.

Social marketing

Various ministries of Government of India have undertaken commendable programs of social marketing such as polio and small pox eradication, prevention of child marriage, and preventing female feticide. These campaigns can serve as models for conducting social marketing initiatives in financial education.

Adult education

Financial education should form an integral part of the adult education.

Self-help groups and others

Some of the self-help groups have helped in the spread of financial education as a part of maintaining accounts and make budgets. The good work needs to be carried forward and put on a disciplined basis.

Microfinance institutions

Many NGOs have been running successful financial education programs for their borrowers. These programs need to be dovetailed into an overall strategy for people in other areas.

Helpline

There is a need for multi lingual and if feasible, toll-free helpline where an investor/customer/client can call and get assistance/support. It should be like a friend who is available to guide you in case of difficulties. All regulators can think of such initiative if they have not already thought of it.

Regulated intermediaries such as Banks, DPs, brokers, PFMs, and Annuity service providers and play an important part in making a person financially educated. They can make their consumers/clients/investors aware of their rights and responsibilities.

Major Initiatives in India so Far**Initiatives by Reserve Bank of India**

The Reserve bank of India, which is the central bank has been actively participating in the field of eradicating financial literacy in the country. In this context,

- A project called "Project financial literacy" has already been implemented. The main objective of this project is to disseminate information regarding the central bank and general banking concepts to the various target groups including school and college going children, women, rural folk, rural and urban poor, defense personnel and senior citizens. Information is distributed to the target audience through presentations, pamphlets, brochures, films, websites, etc.
- Reserve bank has been conducting essay competitions to promote financial awareness among school children on topics related to banking and finance.
- Recently the bank launched the "RBI young scholars' award" scheme for outstanding students to generate interest in creating awareness of banking sector of the country.

Initiatives by NGOs in India

NGO named "Sanchayan" is dedicated exclusively in spreading financial literacy and awareness among the youth and adults who come from low income background. For this, the NGO

conducts free workshops on topics ranging from the basics of banking, credit cards, and PAN cards. The main objectives of these workshops are to enable these youth and adults to become aware and become part of mainstream banking and financial services industry.

Another NGO named Citi India (A branch of the Citi group international) has been on the arena of spreading financial awareness among Indian masses. The group has launched a pilot program on women empowerment through financial literacy in participation with the self-employed women's association bank. This program was developed to teach the women how to employ the money they have borrowed and how to use the profits earned by them.

National Strategy for Financial Education

The formulation and implementation of National Strategy for Financial Education will reap rich benefits to the country and can be attributed to following reasons:

- Inclusive growth, financial inclusion, and financial education
- Knowledge and skill
- Freedom from exploitation
- Avoidance of over-indebtedness
- Promoting entrepreneurship
- Positive Spill-over effects
- Behavioral change
- Deeper participation in financial markets.

SEBI's Initiatives on Financial Education

Securities Exchange Board of India has embarked financial education on a nationwide campaign. To undertake financial education to various target segments *viz.* school students, college students, working executives, middle income group, home makers, retired personnel, self-help groups, etc., SEBI has empanelled resource persons throughout India. The Resource Persons are given training on various aspects of finance and equipped with the knowledge about the financial markets. These SEBI Certified Resource Persons organize workshops to these target segments on various aspects *viz.* savings, investment, financial planning, banking, insurance, retirement planning, etc.

Investor education programs are conducted by SEBI through investor associations all over the country. Regional seminars are conducted by SEBI through various stakeholders *viz.* Stock Exchanges, Depositories, Mutual Funds Association, and Association of Merchant Bankers, etc. SEBI has a dedicated website for investor education wherein study materials are available for dissemination.

SEBI also publishes study materials in English and vernacular languages. Under "Visit SEBI" program. SEBI has recently set up SEBI Helpline in 14 languages wherein through a toll-free number, investors across the country can access and seek information for redressal of their grievances and guidance on various issues.

IRDA'S Initiatives on Financial Education

Insurance Regulatory and Development Authority has taken various initiatives in the area of financial literacy. Awareness programs have been conducted on television and radio. IRDA

conducts a seminar on policy holder protection and welfare and also sponsors other seminars on insurance by consumer bodies. It also has publications of “Policyholder Handbooks” as well as a comic book series on insurance. A dedicated website for consumer education in insurance is on the verge of launch.

Market players Initiatives on Financial Education

Commercial banks increasingly realize that they are missing out on a large segment of financially illiterate and excluded segment of prospective customers. The objective is to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counseling people who are struggling to meet their repayment obligations and help them resolve their problems of indebtedness, helping in rehabilitation of borrowers in distress. Even top management is undertaking visits to villages with a view to spreading financial literacy.

Research Methodology

This study is conducted with a motive to cultivate awareness of the importance of financial literacy in attaining sustainability in a much wider manner. The methodology involves Primary Data collected from 30 people belonging to various age groups and secondary data from varied sources of information.

Sampling Technique

Convenience sampling (Author has surveyed the respondents whom she knows through friends, acquaintance, and professional colleagues).

Questionnaire

Name: _____

Age: _____

Occupation: _____

1. What do you think refers to sustainability?
2. What do you think is the difference between “maintaining” and “sustaining”?
3. Natural resources are depleting. What do you think can be the ideal way to bring control?
 - A. Awareness and education
 - B. Govt. Action
 - C. Penalty
4. Do you think the education system in India caters to providing “knowledge”? Yes/no
5. What is the most interesting way to improve financial literacy for
 - A. Age group 0-15 _____
 - B. Age group 16-35 _____
 - C. Age group 36+ _____
6. Do you involve your family members in budgeting monthly expenses? Yes/no
7. Do you analyze options before spending money? Yes/no
8. If answer 8 is yes, what is the basis for analyzing?
 - A. Future worth
 - B. Need of product
 - C. Peer effect
9. Do you know about education initiatives by different organizations such as SEBI and IRDA BSE?
10. If yes, state a few

11. What do you think is the responsibility of business organizations toward financial literacy?

The answers from respondents have led to some interesting facts that form a part of this paper:

- 90% of the respondents feel sustainability is a long-term target including future generations in its purview whereas maintenance is a comparatively self-centered concept
- All respondents give importance to Awareness and Education for saving natural resource depletion issue
- 60% of the respondents are not involved in the financial decisions of the family
- 90% of the respondents believe education system in India lacks in providing “knowledge”
- 80% of the respondents are not aware or minimally aware of the programs conducted by various organizations
- All the respondents have a common view of methods to be involved in financial literacy which boils down to a mechanism delivering practical knowledge in line with prevalent trends.

Recommendations

Presently, financial illiteracy permeates across all levels of society and economic strata. The nature of illiteracy and its manifestations may vary, but it gets reflected in the everyday financial choices that many of us make. The lack of basic knowledge about financial products and services and their risk-return framework is one common instance of financial illiteracy that is widely observed.

This paper quotes few recommendations based on experiences from the existing initiatives:

- Family Education can act as a “Charity begins at Home” step to give a head start to financial literacy
- In developing economies like India, the diversity of consumers and providers is a strong support to emerging efforts to deliver financial education messages through multiple channels including cell phones, radios, TV, and social marketing tools
- A collaboration of the knowledge provider with another would be highly beneficial to aspirants as both entities have an interactive pedagogy, an intensive but well-balanced business education, high quality of faculty members drawn from around the world facilitating a close interaction with the business community and a diverse mix of nationalities
- Global certifications will allow professionals to work on international projects and also increase job mobility prospects
- Corporates including banks, financial institutions, and other market players need to be financially literate and be fully aware of the risk and return framework. The financial literacy for the providers of financial services would involve understanding the risks involved in their businesses and in the products that they offer to their customers. As market players, they need to understand risks inherent in complex financial products and choose wisely while committing funds. For service providers, financial literacy also involves understanding the needs of existing and potential customers and creating products and services suited to those needs
- In view of the sheer magnitude of the task at hand, it is beneficial to have a strong institutional architecture guiding

and coordinating the efforts of various stakeholders toward spreading knowledge

- A blend of National/Regional Consumer Education Campaigns, initiatives by Financial Service Providers and School-based Programs can help in mega scale success of the financial literacy motive in sustainable manner
- A good investment in the quality of financial education is to offer it to trainers themselves. Realizing its relevance to their own lives, trainers become motivated to share it with others
- Quality education also requires attention to the mundane - logistics, location, and schedule
- Ultimately long -term sustainability and the ability to demonstrate value will depend on the effectiveness of a program. Effective programs are relevant, practical and of high quality; achieving such programs begins at the inception phase, with information on potential participants' current financial behaviors and desired behaviors gathered from market research, workshops, stakeholders' forums, and informal discussions. Further, programs should be constantly reviewed and revised to ensure that the materials and curricula meet the changing requirements of the audience
- Apart from the Government and the regulatory bodies, there is a need for involving the civil society and all other stakeholders in spreading financial literacy to attain the level of financial capability.

Conclusion

Few years ago, few in the developing economies had ever heard of financial education. Today, it is coming to your TV; your bank will send text messages reminding you to save; local newspapers run weekly financial advice columns; governments are mandating that financial institutions publish transparent product prices.

The financial literacy is expected to drive nations toward sustainability with the steps to impart the capability to transform ordinary individuals into informed and questioning users of financial services. It is not just about markets and investing, but also about saving, budgeting, financial planning, basics of banking and most importantly, about being "Financially Smart." Developing nations running to promote this action need to broaden their aim and look at financial capability which is a far better holistic approach. Thus, building financial capability - the combination of knowledge, skills, and attitudes with the opportunities to apply them - requires input from multiple sources including those that educate the consumer and those that sell the products. As a result, the responsibility for wise decisions regarding financial strategies and tools does not lie solely with the individual client. Sustainable programs are those designed around strong funding models, serving not only the needs of the participants but ultimately adding value to all stakeholders. Achieving this means continuous commitment to learning, building the capacity of staff and organizations, and nurturing partnerships.

Financial literacy is now and will continue to be embraced far beyond the financial services industry.

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