

Importance of Financial Literacy



Gesu Kaushal
*Executive Director & Co-Head
- Equity Corporate Finance
Kotak Mahindra Capital Co.Ltd.*

Developing life skills, such as thinking, social and emotional skills, are an integral part of the education and development of any individual. They help you to improve your way of life. Financial literacy is one additional life skill that is extremely important in today's day and age. An individual can be classified as being "financially literate" if they possess suitable and sufficient knowledge of how various parameters related to their earning, spending and investment related decisions affect their personal finances.

In addition to basic knowledge about investments, savings, tax planning, etc., it is critical that one also appreciates how various external factors could affect one's personal financial status – such as mechanisms revolving around the use and payment of credit cards, changes in value of money from time to time due to inflation, exchange rates, interest rate trends, global factors, etc.

Therefore, in a nutshell financial literacy constitutes the ability to grasp:

- How money is made by individuals;
- How people manage the money earned by them;
- How they invest it; and
- How they save it to plan for a secure future.

In the context of India, the importance of financial literacy cannot be over emphasized. Results of recent studies and surveys indicate that Indians are among the least financially literate people globally, with not only the youth struggling with financial concepts, but also adult men and women being ignorant of even basic financial knowledge. This unawareness leads to most people in India practicing unfavourable financial habits such as setting aside savings to weather a rainy day, either in low yielding instruments or in wrong/ bad instruments, revolving credit on their credit cards, investing in ponzi schemes, resorting to borrowing from local money lenders etc. Lacking in financial literacy in their early years, adults when they start earning, develop a mental block on financial matters and thus continue to invest wrongly.

There have been many initiatives taken in other countries across the world to promote financial literacy among its citizens. Governments in many countries have spelt out their intention to pursue financial literacy

as a mission. Taking a cue from that, private institutions, educationists as well as financial services intermediaries have embarked on various projects to impart financial education across various target segments, be it pre-primary school children or undergraduates. Such public – private initiatives are expected to yield desired results over the next couple of years. The importance of financial literacy can be further stressed by The Organization for Economic Co-operation and Development (OECD), an inter-governmental organization with 34 member states, including Financial Education and Financial Literacy among its areas of focus.

Recognizing the need for financial literacy in India, the Government has announced the National Strategy for Financial Education. In the recent past, the Reserve Bank of India (RBI) has also launched various financial literacy initiatives, some of which include:

- o Setting up of various financial literacy and credit counseling centers across India to educate the population at large
- o Executing the "Project Financial Literacy" to improve the financial literacy statistics in India
- o Launching the "RBI Young Scholars Award" scheme to generate interest in India's banking and financial sector and to encourage learning about the RBI in general

Additionally, various credit counseling initiatives have also been undertaken by RBI in partnership with other institutions to promote general financial and credit related awareness and education across the nation.

Being financially literate is not just beneficial for individuals but positive for the society at large. The age at which individuals start gaining exposure to financial transactions, be it for opening a bank account, applying for an education loan or transacting online, is falling while the complexity of these products is increasing. The global financial crisis of 2008 is a proof of that.

It is imperative that the emphasis on financial literacy increases. Schools and college curriculum should have some basic concept classes, with age appropriate and stimulating teaching aids to get students engaged in developing this significant life skill.

Being financially literate will not only help individuals attain a higher standard of living by managing their finances more effectively, it will also allow them to actively budget their household expenses and save up adequate funds for when they retire. There is a strong emphasis being placed on financial literacy in many countries. The rationale being that if we educate the youth and the present generation, they can make informed decisions about their finances, which in due course will help uphold a stable society from an economics point of view, and improve the standard of living for the next generation.