

# Financial Literacy for New Generation



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“The financial preparedness of our nation’s youth is essential to their well-being and of vital importance to India’s economic future”

The above quote was mentioned by Mr Ben Bernanke, the Federal Reserve Chairman, USA, in the wake of US financial crisis. A lack of basic money management skills among the consumers, particularly the young population was found to be held responsible for the vast and varied effects the global financial crisis brought about on the personal finances of the American consumers.

We in India must learn lesson from such ill-fate and be careful by initiating appropriate measures in our country to

convert this challenge into a golden opportunity. A modest beginning in this sphere reveals that lack of financial knowledge in the youth can be primarily attributed to the following reasons:

- 1) **Parental illiteracy or negligence:** Majority of the young rely on their parents for financial education and advice and a large number of parents are themselves not financially literate and hence they are not in a position to guide their children.
- 2) **Lack of formal education in schools & colleges:** The Indian educational curriculum does not impart the basic financial skills and the principles of money management that the child needs to know. He/she is left to learn by trial and error or on their own when they start earning. But the knowledge so acquired may lack the most effective & finer way of saving and budgeting.

Financial literacy, while imparts understanding about the basics of personal finance, it also focuses on the youth to have a better insight about how to manage it by use of the financial tools and resources which can be made to work to the best of their advantage. They would also come to know about the significance of money and savings, power of compounding and what difference can it make if early investment is made against at later date and little larger amount as against smaller amount and the ways in which they can make the best use of their finances. This knowledge will act as a shield in tackling the effects of a sudden financial disaster, with a better accuracy

The need to educate our future generation in financial literacy has assumed greater significance than ever before because of the following reasons:

1. **Uncertainties and evolving family systems:** Life is fully of uncertainties and lot many liabilities need to be shouldered by many young people since new family system is evolving. Also, studies, higher studies, medical expenses/treatment, housing and social liabilities have increased manifold.
2. **There are greater temptations.** Internet/TV and movies expose the youth to consumerism, making their ‘wants’ greater than ‘needs’. Thus giving into temptations.
3. **Increasing debt options:** With increasing debt options, getting a loan is very easy and without the discipline it requires to payoff, it may end up becoming a huge liability.
4. **Increasing disposable income:** Another reason is that with increasing disposable income in cities, both parents working and earning sufficiently, they give into the demands of the children without teaching them frugality. This in future becomes a habit.

While there could be various ways in which the young population can improve their financial knowledge such as the online self learning courses etc., but the greatest learning process of financial management lies in developing a sense of responsibility and imbibing it as a cultural value or a life skill that we inherit from the family, considering the importance of financial literacy. Financial literacy should thus begin early in life, from childhood itself and should go through a continuous metamorphosis according to the situation and circumstances.

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The design of the course should be student friendly and thrilling thus injecting in them the skills of management of money. It must focus on practical skills with understanding on the conceptual clarity so that they are prepared for the 'real world'.

The ultimate goal should be to help our young people set and accomplish their financial goals. The course should motivate students to implement the financial education lessons they have learnt. It should engage students with different activities and help the students internalize financial literacy education so they benefit from this knowledge throughout their life.

The confidence that a practical financial education can bring to students will have long-term positive benefits that impact other areas of their student life. Financial literacy will empower students to make sound choices, avoid mistakes that can compound problems and take full charge of their lives in college and after graduating.

While the need for financial literacy education to students is well appreciated and taken forward by the government and various institutes, the need of the hour is to make financial literacy as part of curriculum in all Schools and colleges, considering financial literacy as a 'life-skill' and a 'must-skill' for each student/family. The literacy initiative should be followed up with skills testing and also mentorship programs to help them master the skills.

While the education of financial skills definitely helps the student in the aspects of how to budget, set financial goals, choose a career, control spending, save money and to pick good credit, there are also certain other life skills that are imparted which impacts the student not only in managing finances but also their life as a whole. Some of these skills are very vital for success in life and are rarely taught in school.

Some of the life skills imparted through financial literacy initiatives are as under:

- i) Deferred gratification & frugality (spending vs. savings): In today's times of nuclear families and single child homes with double income parents, deferred gratification and frugality is rarely exercised. Hence child's all need are satisfied instantaneously. Financial literacy teaches him the benefits of compounding, how money multiplies and the time value of money. This teaches him the skill that whatever he saves and invests today will give him higher fruits in future. This will teach him to invest in relationships and savings for the future.
- ii) Planning & organizing (Budgeting and creation of financial plan). Financial discipline is essential for creating wealth. Unless expenses are budgeted and capital invested in a planned way, future cannot be secured. With this, the child learns to plan and organise his time and resources in other areas too in order to reap a good future.
- iii) Discipline (regular savings). Regular saving helps him in creating wealth. This discipline can be used in his daily routine of studies and other habits like play, good food habits and maintaining good health.
- iv) Goal setting (creation of financial plans requires visualizing the goal and creating a plan to meet the same). Goal setting is the most powerful tool a child can learn, because this helps him achieve all that he wants in life.
- v) Risk taking and risk management (investing in shares) When the student learns Investing in uncertain outcomes like shares/MF and realises the returns he receives from them. He/she learns to take calculated risks in other areas of life too. This may be in the area of charting a new career path or in the area of entrepreneurship.
- vi) Responsibility. Financial literacy teaches him to be responsible for creating his wealth. this will also make him responsible in other areas of life like studies, taking care of parents etc
- vii) Decision making (Choice) Managing finances involves making a choice of financial instruments. The returns are governed by the choice of instrument he makes. Similarly in life his future is governed by the decisions he takes in schools and colleges. This realisation makes them responsible students and good citizens
- viii) Contribution to society: By investing in long term instruments and in capital markets they are also contributing to nation building. This teaches them that as a responsible citizen they also can contribute to the development and well being of the nations by their contributions

Overall financial literacy curriculum and training in School enables students to take control of their circumstances; improve quality of their life and ensure a stable future for themselves and their families. Our prosperity as a nation depends upon the personal financial prosperity of each one of us but more particularly on the students who are the future for any nation.

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