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REPORT ON FINANCIAL LITERACY AND ITS SCOPE IN HIGHER EDUCATION IN ODISHA

Submitted by

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Introduction

Freedom forms the core of decision making of citizens in their ordinary business of life. An important aspect of this freedom which makes people 'saksham' is literacy. While literacy is prevalent in scientific, social, linguistic and technical skills; there is one domain where it is often overlooked: finance. In India, while the literacy rate is 74% (with few states enjoying literacy levels above 90%) the percentage of the financially literate population is estimated at 24% ;the huge gap between the two is quite evident.

Being financially literate may be the difference between getting trapped in uncontrollable debt, frequently from loan sharks, and emerging victorious by developing profitable small enterprises.

In May 2022, around ₹25,000 crore of unclaimed money lied with public and private sector insurance companies in India (IRDAI)- only one instance where lack of nominees, non-submission of full details of the policy etc created a gap in the economic cycle.

Of late these are particularly exacerbated in the context of heightened uncertainty and volatility of the financial sector with increased influence of private players, shrinking public support system, rise of cost of living and availability of a large number of financial products and services to choose from.

The Problem

The urgency to deal with lack of financial literacy further became evident with the outbreak of Coronavirus disease which made physical distance mandatory. Consequently, stepping into the virtual world emerged as the option of last resort without paying heed to availability, adequacy and access to requisite infrastructure. A sudden switch to online payments particularly for cash-driven economies opened up boulevards for financial frauds. Due to unexpected job losses and wage cuts, people experienced financial hardships, and companies throughout the world suffered from previously unheard-of difficulties.

According to an S&P survey, more than 75% of Indian adults do not adequately understand basic financial concepts. It's even worse when it comes to women. More than 80% of women are financially illiterate. As a result, millions of Indians make disastrous financial decisions, the consequences of which are not only terrible to those who bear the brunt but also in producing a scaring-away effect on others who are potential users of financial products and services. With around 190 million Indians unbanked, it is essential to encompass beyond the specific population sub-groups for nationwide financial inclusion. A thrust on financial education is therefore, absolutely essential to make financial inclusion more meaningful and enabling for citizens' reach to economic well-being

Overall, individuals are making substantially more financial decisions over their lifetime, living longer, and gaining access to a range of new financial products. These trends, combined with low financial literacy levels around the world and, particularly, among vulnerable population groups, indicate that elevating financial literacy must become a priority for policy makers. It allows for optimum utilization of monetary resources to ensure the flow of funds throughout and hence becomes imperative for non-vulnerable groups too.

Significance

There are several explanations for why higher financial literacy translates into greater wealth.

- Individuals with higher financial literacy are more likely to plan for retirement, probably because they are more likely to appreciate the power of interest compounding and are better able to do calculations.

- Higher returns on investments and investment in more complex assets, such as stocks, which normally offer higher rates of return.
- Strongly correlated with a greater ability to cope with emergency expenses and weather income shocks.
- With regard to debt behavior, those who are more financially literate are less likely to have credit card debt and more likely to pay the full balance of their credit card each month rather than just paying the minimum due.

In the Indian economy, the government programs in the financial sector aimed at increasing the reach of banking services are largely confined to the opening of bank accounts and linking it with Aadhar card through its Jan Dhan-Aadhaar-Mobile trinity with no mention of financial literacy in the process. This has led to a one-sided approach undesirable for building an inclusive financial system. The efforts made by the central bank towards building a financial literacy base should now broaden its identified target groups considering the importance of financial literacy for various demographic groups and the financial system as a whole.

Further, a switch to the digital world could establish a discourse and practice of financial literacy in India, grounded in a paradigm beyond the target groups. The rapid spread of mobile payment technology and alternative financial services combined with lack of financial literacy can exacerbate wealth inequality.

With 65 percent of its population under the age of 35 years, India today asserts one of the largest available workforces in the world. A large segment of this demographic belongs to the Gen Y group. So, measuring financial literacy among the people under the age of 35 becomes important.

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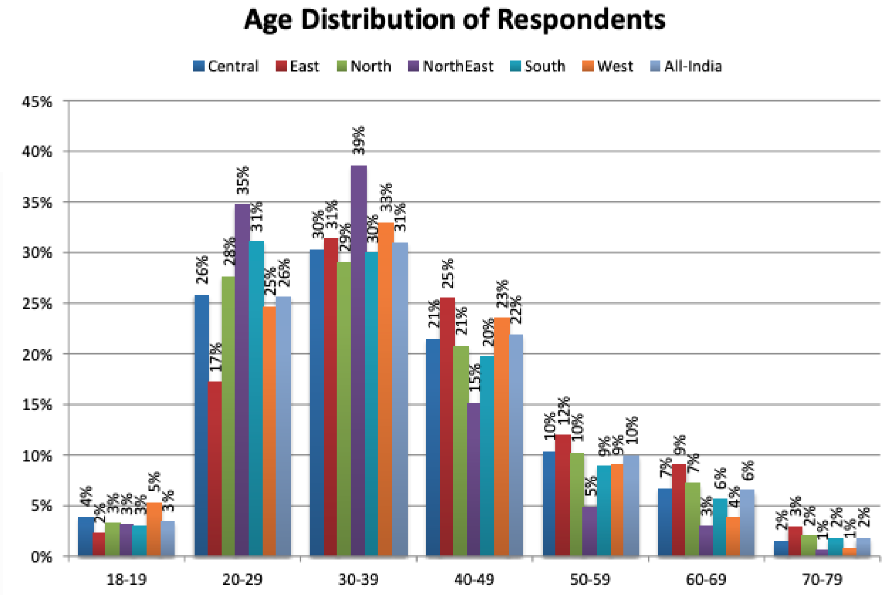

Source- National Centre for FInancial Education Survey 2019

Age-distribution of respondents shows that for all the zones the highest number of respondents to a core questionnaire and supporting toolkit designed to capture information about respondents' financial knowledge, behavior and attitude, as well as on financial inclusion were from the age group 30-39. Respondents from a younger age group of 18-19 possessed only limited financial education.

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Financial literacy in Educational Institutes

The OECD INFE, 2011 has defined financial literacy as follows:

'A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.'

Being financially literate doesn't mean only awareness about a few financial concepts, rather it consists of financial behavior, attitude and knowledge (INFE OECD, 2011). It is therefore incumbent upon the Government to ensure adequate financial literacy among the entire population of the country and progressive expansion of the literacy paradigm.

To be effective, financial literacy initiatives need to be large and scalable.

In the context of conventional wisdom, education is positively and significantly associated with financial literacy; however, a deeper analysis reveals that it acts only as a facilitator. A low level of education emerged as a characteristic of a low financially literate population while a Ph.D. degree does not ensure high financial literacy. This gives way to understanding and introducing financial literacy in higher education.

Educational institutes are rarely studied as a part of financial literacy research. A part of the neglect can be explained by the popular belief which assumes educated people as financially literate too, and easy accessibility of educational institutes to banks makes it easier for employees to be familiar with various financial products and concepts. The two plausible reasons need to be empirically validated as this may not necessarily be the case always; in fact, these two reasons might be creating an illusion of being financially literate when an individual is not. Hence, it raises a critical question that has not received much attention:

Does the improving level of education translate into a higher level of financial literacy?

School-based education can be transformational by preparing young people for important financial decisions. The OECD's Programme for International Student Assessment (PISA), in both 2012 and 2015, found that, on average, only 10% of 15-year-olds achieved maximum proficiency on a five-point financial literacy scale. As of 2015, about one in five of students did not have even basic financial skills (see OECD, 2017).

An Economic Point of View

The theoretical framework used to model consumption/saving decisions posits that rational and foresighted consumers derive utility from consumption over their lifetime. In the simplest format, the consumer has a lifetime expected utility, which is the expected value of the sum of per-period utility discounted to the present from the consumer's current age to his/her oldest attainable age.

Assets and consumption each period are determined endogenously by maximizing this utility function subject to an intertemporal budget constraint, which represents the present discounted value of future resources (which include earnings, Social Security, and pensions). This model posits that the consumer holds expectations regarding discount rates, investment returns, earnings, pension and Social Security benefits, and inflation. Further, it posits that the consumer uses that information to formulate and execute optimal consumption/saving plans. In other words, the consumer looks ahead and plans for the future taking his/her lifetime resources into account.

Even in this basic formulation of the saving decision, the actual requirements for making saving decisions are demanding: Individuals have to collect information and make forecasts about many variables, from Social Security and pensions to interest rates and projected inflation, to name just a few. Moreover, they have to perform calculations that require, at minimum, an understanding of compound interest and the time value of money.

Decisions about how much to accumulate and how much to borrow to be able to smooth consumption over the life-cycle also require an understanding of the working of interest rates.

Do individuals possess the level of financial knowledge and numeracy necessary to perform the calculations mentioned above? Does saving and borrowing behavior follow the predictions of these simple models? While financial literacy has often been overlooked previously, it can be an important predictor of financial behavior.

Prevailing Situation : Odisha

Odisha has had progress in financial inclusion with the implementation of Mission Shakti, Odisha Livelihood Mission, Microfinance Institutions channels, and Banking Correspondents, being the first State in the country to adopt the model of Self-Help Group to extend banking services in unbanked areas. In 2019-20, a total of around 2 lakh SHGs were credit-linked with banks, availing a total credit of around INR. 2000 crore.

To promote financial inclusion through penetration of banking services in rural areas, to provide sustainable banking services in unbanked areas, and to provide doorstep banking services in unbanked areas, a phase-wise approach was adopted. Mission Shakti is a silent revolution in the state transforming the lives of around 70 lakh women under 6 lakh women SHGs. During 2018-19, Mission Shakti focused on formation of groups, linking them to banks, and providing seed money to women SHGs,

Odisha received the National Award for outstanding performance in Financial Inclusion under DAYNRULM in 2018. Till 2019-20, to ensure inclusive growth & financial inclusion and to encourage public saving habits ,1.54

crore bank A/Cs had opened in the state under the Jan Dhan Yojana. Banking network not only promotes financial inclusion, but also enables diversification of economic activities and productive investment. It shoulders the responsibility for mobilizing public savings.

However, while the the major focus has been on convergence with different Government Departments for provisioning of Government Services & procurement of goods by Mission Shakti SHGs, upscaling financial inclusion initiatives & deepening the State interest subvention programme, giving an impetus to marketing of SHG products and adopting digital solutions for more efficient programme monitoring; there has been a lack of disseminating financial literacy for self reliance and independence.

Literacy as an instrument for inclusion

In a complex environment where the global competition is high, the economy is offering a plethora of financial instruments and the role played by the governments and employers has shrunk, the responsibilities of managing personal finances are completely on the shoulders of an individual, it is mandatory for them to be financially literate and capable enough for sustaining. It is imperative on the part of an individual to analyze the situation and make right decisions for managing his finances.

Financial literacy has been recognized as a key skill for individuals who are embedded in an increasingly complex financial scenario.

It is also observed that financial literacy can enhance people's skills and abilities to make more informed choices and ultimately lead to a positive financial behavior. Thus one can conclude that increasing the level of financial education stimulates wise economic behavior. To understand financial literacy and its relation to financial decision making it is essential to measure numeracy and basic knowledge related to the working of inflation and interest rates as well as to measure advanced financial knowledge related to financial market instruments like stocks, bonds and mutual funds. Those who have low financial literacy are significantly

less likely to invest in stocks and are unaware of basic financial concepts such as compounding, time value of money and credit purchase and advanced financial concepts such as functioning of the stock market, bond prices, mutual fund and loan financing.

The millennials are economically more active compared to their predecessors but are also more fragile in dealing with personal finances. The bottom-line, therefore, is that a 'me-too' approach to financial literacy will not work in India. All stakeholders including consumers must work in conjunction for financial literacy through a combination of innovative strategies.

Recommendations Overview

1. The government should follow the process of : overview of national strategies for financial education, developing a diagnosis to form the national strategy, establishing institutional and governing arrangements, evaluating and funding, and ensuring effective and innovative provision of financial education.

2. The financial services industry could make financial literacy a more forceful platform and put more energy into an industry-wide effort to increase attention, shape policy, fund new research, experiment with new learning techniques like gamification, and encourage their customers, whether they be businesses or individuals, to take a more active role in boosting financial literacy among kids in their communities.

3. Banks could provide financial education to people as it is beneficial to them too in the long run. Building a successful bank-based financial education program requires several important ingredients:

- The program priorities have to be clearly defined. The bank must decide what it hopes to accomplish through the program and focus on achieving that outcome.
- Second, a standardized, high-quality curriculum should be employed.
- Third, delivery mechanisms must be appropriately designed, for example, consider whether the program will be instructor-led, delivered directly by bank employees, or dependent on an indirect delivery channel such as a third party community partner.

4. Mechanisms like money games, simulation games and soap operas should be designed and adopted, which would yield positive results on financial behavior of the youth.

5. Reinforcement of financial topics to the public through advertisements generated for public interest, online free courses with multiple regional languages to cope with India's multitude of languages spoken in every corner.

Implication and Suggestions in Educational Setting

In 2005, the OECD recommended that financial education start as early as possible and be taught in schools. Including financial education as part of the school curriculum is a fair and efficient policy tool. Financial education is a long term process. Building it into curriculums from an early age allows children to acquire the knowledge and skills to build responsible financial behavior throughout each stage of their education

There are three compelling reasons for having financial education in school.

- First, it is important to expose young people to the basic concepts underlying financial decision-making before they make important and consequential financial decisions.
- Second, school provides access to financial literacy to groups who may not be exposed to it (or may not be equally exposed to it), for example, women.
- Third, it is important to reduce the costs of acquiring financial literacy, if we want to promote higher financial literacy both among individuals and among society.

Rigorous financial education programs, coupled with teacher training and high school financial education requirements, are found to be correlated with fewer defaults and higher credit scores. It is important to target students and young adults in schools and colleges to provide them with the necessary tools to make sound financial decisions as they graduate and take on responsibilities, such as buying cars and houses, or starting retirement accounts. Given the rising cost of education and student loan debt and the need of young people to start contributing as early as possible to retirement accounts, the importance of financial education in school cannot be overstated.

1. Curricula for elementary school children should also serve as an age-appropriate introduction to core concepts about money (e.g., the use of bills and coins, the purpose of money) and markets (e.g., how goods and services are exchanged), and how institutions facilitate the interaction between individuals and the exchange of goods and services because familiarity with core concepts influences

the ability to attain specific knowledge and skills and, ultimately, to successfully make sound financial decisions.

2. Financial education that includes opportunities for student participation, discovery, and exploration—in other words, —Participatory Learning—can have a strong, positive impact on financial literacy. Participatory learning can have a powerful impact on the development of financial literacy in two ways. The first is by providing an important context for knowledge and skills. Second, participatory learning provides opportunities to engage in financial decision-making, allowing students to learn through trial and error in controlled settings.

3. Books on financial planning should be there as supplementary books in the school curriculum to promote money management and learning.

Proposed Curriculum for financial literacy at higher education level

Household Economics	1. Earnings & Nature of Earnings 2. Needs and Wants 3. List your expenses 4. Find Simple ways to save money 5. Expenditure, Cost and Prices, Inflation 6. Savings & Thrift 7. Borrowing, Investment and Interest
Banking	1. Role of a Bank - in growth of saving and Investment 2. Types and services of banks 3. Deposits and Loans 4. Types of A/c & Opening a bank A/c 5. How to Transact with banks 6. KYC norms - (A/c opening form, Address Proof) 7. How to read bank statement 8. Net Banking 9. Calculating Interest --Saving, FD, Simple and Compound Interest 10. Power of compounding 11. Loans & Types of loans 12. Definition of EMI & Calculation of EMI 13. Micro Finance 14. How to make a complaint -Banking complaints 15. CIBIL
Investment	1. Principles of Investment- Safety, liquidity and return

	2. Bank saving 3. FD, RD, Post Office Savings 4. POMIS, NSC 5. PPF / NPS 6. Shares / Mutual funds 7. Gold and Silver 8. Asset allocation 9. Risk and Return 10. Basics of Investment- liquidity, credit 11. Compounding and Time value of money 12. Effect of taxes 13. Long term v/s Short term
Financial Planning	1. Meaning 2. Household financial health check up 3. Important life stages 4. Education 5. Medical and other Emergencies 6. Social obligations 7. Goal setting & Budgeting 8. Marriage 9. Buying a house 10. Buying a vehicle 11. Plan a vacation 12. Retirement planning
Insurance	1. Meaning 2. Need and Purpose 3. Loss protection 4. Life ,non life and health 5. Benefits of Insurance 6. Term plans 7. Investment plans 8. Hybrid plans -Ulip etc 9. Agents, advisors 10. Role of Insurance companies 11. Regulator - IRDA 12. How to take a new policy 13. Nomination & Assignment 14. Claims settlement 15. Exclusions 16. Difference between Insurance and Investment
Retirement and Estate planning	1. Concept 2. PPF, EPF, Gratuity, NPS, SCSS 3. Financial need after retirement 4. Three Stages -Saving, Accumulating and Dis-saving 5. Calculation of Corpus required after retirement 6. Protection from Inflation 7. Reverse Mortgage 8. Definition of will

	9. Making a will
Use of Technology Do and Don'ts	1. Password protection 2. NEFT and RTGS 3. ATM 4. Online trading 5. Internet banking 6. Need for keeping mobile number with banks 7. Three in one account 8. Need of protecting your online account
Scams, Frauds and Ponzi Schemes	1. Free tips 2. Insider trading 3. Money laundering 4. Phishing mail about winning a lottery 5. Price rigging 6. Bogus companies 7. Multi level marketing 8. Schemes not regulated by anyone 9. Banking and credit card scams 10. Preventive measures from getting duped
Borrowings & Need for borrowing	1. Need for borrowing Source of borrowing 2. Merit and demerits of borrowing 3. How much to borrow 4. Avoid life of credit 5. Comparing interest rate on loan offering 6. Importance of timely payment 7. Avoid default 8. Avoid borrowing for conspicuous consumption 9. Credit cards - Merits and Demerits
Taxes	1. Meaning 2. Need of taxes & Types of taxes 3. How taxes impact income 4. Income, wealth and gift tax 5. Service tax, STT, Stamp Duty 6. Tax planning v/s tax evasion 7. Tax rates 8. Tax free bonds 9. Tax saving investment

Workshop/ Seminar Lesson Plan

1. Introduction to Financial Literacy

1.1. Need for Financial Literacy.

1.2. Role of financial education in achieving financial well being.

1.3. Importance of Financial Planning.

2. Key Concepts in Personal Finance

2.1. Savings, Investment, Borrowing, Income and Expenses, Surplus/Deficit, Assets and Liabilities, Inflation, Time Value of Money, Active and Passive Income.

2.2. Power of compounding and Rule of 72.

2.3. Concept of Rupee Cost Averaging.

3. Budgeting & Organizing Your Finances

3.1 Financial Planning Process

3.2. Steps involved in the Planning Process

3.3. Three pillars of investments.

3.4. Concepts of risk and return.

3.5 Budgeting and its importance in financial planning.

4. Financial Pitfalls, Attitudes About Money and Savings Strategy

4.1 Types of bank accounts: Savings account, Current account, fixed deposits, recurring deposits.

4.2. Various modes of transfer through the banking channel.

4.3. Account opening process and importance of KYC norms.

4.4. Do's and don'ts while using digital payments.

4.5. Role of Reserve Bank of India.

5. Understanding Insurance

5.1. Role of Insurance as a risk management tool.

5.2. Various types of Insurance products and their key features.

5.3. Regulatory role of IRDAI.

6. Understanding Credit & Debt

6.1 Borrowing, Collateral and Equated Monthly Installments (EMI).

6.2 Credit and Debit Card

6.3 Documents required for obtaining Loans.

6.4. Various loan products offered by Financial Institutions and their key features.

6.5. 5Cs of Credit.

6.6. Credit Information Organizations and Credit Score.

7. Saving for the future

Conclusion- In today's world which has a market with complicated products, the need for financial literacy becomes predictable. India which has a high young population, the government is in a position to increase the level of financial literacy. The government and other private institutions have taken the ladder through financial education programs. Financial literacy goes beyond the provision of financial information and advice. It is the ability to know, monitor, and efficiently use financial sources to enhance the welfare and economic refuge of an individual, his family, and his business. When taught early,financial literacy provides life skills for young adults to make use of now as well as in the future. It can help individuals go from surviving to thriving. Increasingly, individuals are in charge of securing their own financial well-being after retirement. With the shift from defined benefit to defined contribution pensions, today's workers must decide both how much to save and how to allocate their retirement wealth. Financial markets have become more complex and individuals are faced with a proliferation of new investment products. Investment opportunities have expanded beyond national borders, permitting individuals to invest in a broad range of assets and currencies. However, as the financial crisis has made clear, it is very hard to navigate this new financial system, and the consequences of mistakes can be devastating.

How well equipped are individuals to make financial decisions and how much do individuals know about economics and finance?

In India, on one hand, there is a need to reach out to lower income groups and economically weaker sections, and on the other, to millennials who are hyper-connected and require tailor-made financial products but have limited awareness of the possible financial solutions.

A key lesson is that when it comes to providing financial education, one size does not fit all. In addition to the potential for IEC campaigns for awareness creation and education on social entitlements & Government schemes through various means, the main components of any financial literacy program should be tailored content, targeted at specific audiences. Schools, workplaces, and community platforms provide unique opportunities to deliver financial education to large and often diverse segments of the population.

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