# Financial Literacy (FL) Practical Approaches and Case Studies

*Er. Somashekara M S*
M/s Shekara Consultancy Services
57/1, Third Cross, Jayanagara, Shimoga
mssomashekara@yahoo.co.in

## Introduction

**"TO BORN AS POOR IS NOT ONE'S MISTAKE BUT TO DIE AS POOR IS ONE'S OWN MISTAKE"** is a good old saying in the financial sector and it is true also. To adopt this in everyone's life it is very much necessary that each & everyone should have Financial Literacy (FL). To inculcate this FL among the citizens of India, Government of India (GOI) is taking many steps to impart the knowledge of various ways of money earning & saving in the various types of money growing instruments through proper Financial Planning (FP), Estate Planning (EP )etc., for Wealth Creation (WC). To achieve WC, one such money investing instruments is Mutual Funds (MF). Especially for the lower income and middle-income people, MF is the best way for WC. Indian citizens are comprising of various types of people like educated, uneducated, employed, self-employed, farmers, businessman, etc., with various types of income. To impart the FL knowledge to these persons, the approaches can't be of the same type for all. This paper deals with the different types of successful approaches made with the different types of people to impart the knowledge of MF for their WC.

In recent days the concept of FL also includes Financial Planning (FP) and Estate Planning (EP). It is not sufficient to influence a person to invest in the various financial instruments like MF, FD, Stocks, physical assets, insurance etc., It is also necessary to educate the investors about how to balance between Income-Expenditure-Savings (IES) for long/mid/short term, retirement planning, finance goal setting & reaching, wants & needs balancing, etc., for the porpose of WC.

This paper is limited to how to financially literate the various classes of people and make them to invest into the MF schemes with the view of their WC. Explained the approach in three cases where in the investors are from the different financial background.

## What is Financial Literacy (FL)?:

FL is the ability to understand and effectively use various Financial Knowledge (FK), Financial Skills (FS) including Personal Financial Management (PFM), Financial Budgeting (FB) and Financial Investing (FI).

The Five Cs of FL are Character, Capacity, Capital, Collateral and Conditions.

The Five Ps (Principles) of FL are Earn, Spend, Save & Invest, Borrow, Protect.

Among various Rules for FL (RFL) with respect to the Income-Expenditure-Savings (IES), the 50-30-20 rule seems to be the best. It means, 50 % of earnings spend on **Needs** like food, cloths, shelter & education etc., 30% of earnings can be spend on **Wants** like luxurious desires (entertainment, trips & tours etc.,), remaining 20% of earnings can be saved for future needs & wants and to achieve the Financial Goals (FG).

## The process of Wealth Creation (WC):

The standard model of any activity or process or action & reaction is IPO model. IPO means Input-----→ Process-----→ Output.

ISBN code 978-93-83302-71-0

For Wealth Creation the IPO model can be drawn as

**Money (Input)----→Investing or Holding time, decisions, actions etc., (Process)------→Wealth Creation or Gain (Output)**

Out of these three factors Money, Time and Gain which is the most important factor to create wealth? **Certainly it is the factor TIME.** As the holding time of an efficient investment is more, the creation of wealth also more. These aspects are to be inculcated in to the minds & habits of the investors which can be achieved only by way of inculcating the Financial Literacy (FL) among the people.

**Some hard facts about the low FL in India:**

**In India, the level of FL among the population is low & it is about**

Elementary level of FL is 43%

Moderate level of FL is 21%

Advanced level of FL is 4%, and

Nil FL is 32%

Also among the women the level of FL is low and it is about

Almost zero 44%

Very Low 40%

Good 12%

Excellent 4%

The reasons for this low FL among Indian citizens can be enumerated as follows:

We were not taught Financial Literacy (FL) in our school days. It takes a lot of work and time to change our thinking and to become financially literate. Only from the year 2014 the subjects related to finance is included in the syllabus of high school students of 8$^{th}$, 9$^{th}$ and 10$^{th}$ classes. But not included in the syllabus of 11$^{th}$ and 12$^{th}$ classes syllabus & Under Graduate (UG) classes.. In India after the 10th class the students will learn about the finance are those students who opt for the study of the Business, Commerce and Finance subjects.

Today need of the hour is not just WC knowledge among the people but the concept & knowledge of Sustainable Wealth Creation (SWC) and the knowledge of Wealth Management (WM) are the main concern. But today the situation has come to such an extent that most of the people are illiterate about how to create SWC and manage wealth, It is because of lack of FL. To overcome this, Reserve Bank of India (RBI),has taken several measures. One among the such measures is, every year in the month of February, RBI conducts Financial Literacy (FL) programs with the help of financial institutions/academicians/regulators etc.,

This year 2024, the Financial Literacy Week held from 26$^{th}$ February 2024 to 1$^{st}$ March 2024 with the theme of “Make a Right Start: Become Financially Smart” with emphasis on “Saving and Power of Compounding” “Banking Essentials for Students” and “Digital and Cyber Hygiene”. While significant progress has been made in the FL the challenges remain in ensuring that financial services reach the most underserved population.

Most of the people in India think that FL means investing and creating wealth which is totally wrong. Correct FL leads to **“Sustainable Wealth Creation (SWC)”**

**Broadly the Wealth can be classified in 4 forms as:**

Financial Wealth (FW)

Social Wealth (SW)

Time Wealth (TW)

Health Wealth (HW)

This paper deals only with FW although other 3 wealths acts as supportive to create FW.

For SWC, investing is not about a once-in-a-lifetime opportunity. It is a life-long journey of prudent investments that grow with time. One need to start small and let the magic of compounding do its trick.

**Three Pillars of Wealth are:**

**Mindset** – Investor should have burning desire and confident with minimum negative talk and negative thinking.

**Habits** – Investor should cultivate good habits with consistency and focus on daily actions while concentrating on their goals (Large term, Midterm and short term)

**Money** – Investor should learn investing with discipline and not to just for show off but with the goal of building assets at Long term, Medium term and short term.

**Ways and Methods of Investment for SWC:**

There are many ways & methods for SWC for those who are investing in immovable assets (like land, building etc.,) and movable assets (like metals, shares, bank deposits, **MFI,** commercial papers, lending loans etc.)

**In this paper, the meaning of ways and methods of investing is restricted to the investing in the MFI and related Financial Literacy (FL) and connected case studies.**

**The History of the Mutual fund (MF)**

Mutual Fund was born from a financial crisis that staggered Europe in the early 1770's. The British East India company had borrowed heavily during the preceding boom years to support its ambitious colonial interests, particularly in North America where unrest would culminate in revolution in a few short years.

As expenses increased and revenue from colonial adventures fell, the East India Company sought a bailout in 1772 from the already-stressed British treasury. **It was the "original too big to fail corporation"** and the repercussions were felt across the continent and indeed around the world.

At the same time, the Dutch were facing their own challenges, expanding and exploring like the British and taking "copy-cat risks" in a pattern that has drawn parallels to the banking crisis of 2008.

**Recent Status of Industry (MFI)**

As on today the MFI is growing exponentially. MFI is playing an important role in Indian Economy (IE). The positive roles playing by MFI are numerous like:

Balancing of company share prices

Controlling of share market ups & downs.

Keeping the stock price of an efficient company at optimum level during the stock price crashing.

To nullify the foreign investor's negative influence on the Indian Stock Market (ISM) and in turn balance the Indian Economy (IE) positively..

To create the wealth for both the investors viz., Institutional Investors (II) and Retail Investors (RI) who invests in the MFI.

MFI has created the atmosphere of finance investing by various type of people viz., Financially Lower Class (FLC), Financially Lower Middle Class (FLMC), Financially Upper Class (FUC), Financially Super Upper Class (FSUC) etc., by having the various types of investing schemes, investing amount. Investing methods & periods to suit to all class of people and to achieve the FG of the investors.

In recent days MFI has come up with the proposal of investing the lowest amount like Rs.100 per month through Systematic Investment Plan (SIP) to facilitate the financially weaker investors also to take part in the process of Wealth Creation (WC).

The latest Asset Under Management (AUM) of MFI is about Rs. 62 Lakh Crore.

Case Studies about inculcating of FL

Live cases have been explained about how FL inculcated among the various types of people. Three cases are explained in which one is a farmer (Case of Areca nut), second one is a retired engineer (Case of Low Growth) and third one is a girl (Case of Poor Girl).

Case 1: Case of Areca nut:

A farmer known to me took wrong decision in selling the Areca nut grown by him. Further he was unaware about the various money investment instruments to make his money grow. I guided him about the selling price calculation and how to invest in the MF to make his money grow which is explained below:

Farmer got about 60 quintals of Areca nut during the harvesting year of 2023. As he wanted money for his hose hold expenses, he sold 30 quintal of Areca nut out of 60 quintal. On 25-07-2023 he sold the 30 quintal of Areca nut at the selling price of Rs.55,000 per quintal.

Amount he earned by selling 30 quintal of Areca nut on 25-07-2023 is Rs. 55,000 X 30 = Rs. 16,50,000 -------------------→ 1st selling

Farmer did not sold the remaining 30 quintal of Areca nut, because he was expecting high selling price ie., more than Rs. 55,000 in a span of 5 to 6 month. His expectation of high selling price was at Rs. 57,000 to Rs. 58,000. Per quintal.

But the selling price of Areca nut went on declining. By fearing that further decline of selling price may happen, the farmer on 14-06-2024 sold the balance 30 quintal of Areca nut at the selling price of Rs. 54,000 per quintal

Amount he earned by selling 30 quintal of Areca nut on 14-06-2024 is Rs. 54000 X 30 = Rs. 16,20,000-------------------→ 2nd selling

Total amount received by the farmer by selling 60 quintal of Areca nut is

**Rs. 16,50,000 + Rs. 16,20,000 = Rs. 32,70,000**

Under the same condition of 1st selling price of Areca nut, myself guided the farmer what he should have done, and to follow the same method in future years, as follows:

**Step 1:** Should have sold the full quantity of Areca nut ie., 60 quintal during his 1st selling ie., on 25-07-2023, by which he would have got an amount Rs.33,00,000. (Rs. 55,000 X 60)

**Step 2:** On 25-07-2023 when he did 1st selling, he was in need of the money about Rs. 16,50,000 (value of 30 quintal) for his house expenditure. So, set aside this amount and balance left out amount with him would have been Rs. 16,50,000 as excess amount.

**Step 3:** This excess amount of Rs 16,50,000 should have been invested in a considerable growth MF scheme. Had he agreed to invest, I would have proposed him to invest in any one or all of the MF schemes which are shown below. The Net Asset Value (NAV) of these schemes on 25-07-2023 (1st selling date) and on 14-06-2024 (2nd selling date) are shown in Table 1.

ICICI Multi Asset Fund / ICICI Equity & Debt Fund / ICICI India Opportunity Fund / ICICI Business Cycle Fund

**Step 4:** He could have invested the excess amount of Rs. 16,50,000 on 25-07-2023 in to the above schemes which have grown considerably as on 14-06-2024 (2nd selling date). The growth percentages of the schemes are shown below:

| Sl. No | Name of the schemes of ICICI Prudential Mutual Fund [Note: ICICI Prudential Mutual Fund is the name of the AMC (Asset Management Company)] | NAV on 25-07-2023 in Rs. Per Unit | NAV on 14-06-2024 in Rs. Per Unit | % of increase in NAV [(4-3) /3] | Gain of investment in Rs., had the farmer invested Rs. 16,50,000 in the any schemes shown under column 2 **Note:** % of gain of investment shown under column 5 | Rs. 16,50,000 invested on 25-07-2023 would have gained by the amount of (Column 5) % of Rs. 16,50,000 as on 14-06-2024 (date of 2nd selling) |
|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5 = [(4-3) /3]** | **6 = Column (5) % of Rs. 16,50,000** | **7 = Rs. 16,50,000 +** |

| | | | | | | Amount in Column (6) |
|---|---|---|---|---|---|---|
| 1 | Multi Asset | 530.41 | 675.92 | 27.43 | 4,52,595 | 21,02,595 |
| 2 | Equity & Debt | 268.75 | 354.76 | 32.00 | 5,28,000 | 21,78,000 |
| 3 | India Opportunity | 23.20 | 31.81 | 37.11 | 6,12,315 | 22,62315 |
| 4 | Business Cycle | 15.88 | 22.24 | 40.05 | 6,60,825 | 23,10,825 |
| | | | | | | |

***Table 1: Showing the growth of the various MF schemes between the dates of 25-07-2023 and 14-06-2024 and the amount gained due to the increase in NAV of the schemes.***

**Inference:**

From 1st selling and 2nd selling of Areca nut, Farmer got a total amount of Rs. 16,50,000 + R. 16,20,000 = Rs. 32,70,000

If the farmer would have followed the method of selling full 60 quintal of Areca nut during his 1st selling on 25-07-2023 and investing the excess amount of Rs. 16,50,000 in the above shown MF schemes, he would have gained an amount between Rs. 4,52,595 and Rs 6,60,825..

Result: Finally, the farmer convinced and agreed to follow the method of selling crops and investing in Mutual Funds in future years. Also, immediately he invested Rs 5 Lakh in the MF and now he is my one of the loyal customers..

**Case 2: Case of low growth**

The investor is a retired engineer. Since he was working in Karnataka State Government Department (KSGD) he is entitled for a monthly pension of about Rs. 80,000. He is well settled and financially strong but very poor in Financial Literacy.

On 09.09..2022 he has been made to invest in a MF scheme operating by a National Bank of India (NBI). We can call this MF scheme as NBI MF (Intentionally I am hiding the name of the bank). On 15.09.2024, after about 2 years of holding time, myself informed the engineer to review the growth of the amount invested with other schemes of other MFs. He agreed for this and requested me to carry out the same and to inform him. I collected the basic data from him viz., total amount invested, time horizon which he can wait to redeem the amount etc., For which he replied as amount invested is Rs. 8 Lakh on 09-09-2022, name of theMF scheme and he can wait for at least 5 years before redeeming the amount. I did the comparative analysis of the growth of his investment as follows:

He invested on 09-09-2022 in the NBI MF's Conservative Hybrid Fund. I compared this investment with the other schemes of well reputed MF company, for which myself selected four equity schemes of ICICI Prudential MF.

The growth of investment amount of Rs. 8 Lakh between the dates of investment 09.09.2022 and the comparison date of investment 15.09.2024 is as follows:

NBI Conservative Hybrid Fund –Growth is 26.03% (a gain of Rs. 2,08,240)

**Had the investor invested in other following schemes of ICICI MF, the growth would have been as follows:**

ICICI Pru Multi Asset Fund is 57.34% (a gain of Rs. 4,58,720)

ICICI Pru Equity & Debt Fund 62% (a gain of Rs. 4,96,000)

ICICI Pru Business Cycle Fund 72.05% (a gain of Rs. 5,76,400)

ICICI Pru India Opportunity Fund 82.84% (a gain of Rs. 6,62,720)

I explained the above calculations to the investor (retired engineer) and advised him to switch his investment to the high growth oriented MF schemes as his waiting period of the investment is 5 years & above.

To my surprise, even after the explanation of this low growth investment, retired engineer was reluctant to switch his investment from the low growth scheme to the high growth schemes. Reasons for this reluctance, I don't know.

**Case 3: Case of a poor girl**

The investor is a poor girl whose father is an illiterate daily wage worker. Poor girl was studying in the under graduate course BCom.. Father was earning about Rs. 15,000 per month. I advised him to invest a fixed amount through Systematic Investment Plan (SIP) in the MF scheme for his family's future expenses. He was not agreeing to invest as he does not know anything about the MF. Next day he came to me with his daughter and requested me to explain about the investment in the MF to his daughter. I asked his daughter whether she knows about the MF. She replied that she has studied about MF in her BCom classes but she actually do not experienced about how a MF functions. Then I explained her about the MF and every month investment through Systematic Investment Plan (SIP). She understood somewhat about the MF and told me that she will meet me next day. Next day both the poor girl and her father came to me to clarify their doubts and agreed to invest an amount of Rs.1,000 per month through SIP. Then I asked her father about how can he arrange money every month to invest, for which he told that every month he gets an amount about Rs. 1,000 against his Over Time (OT) work which he decided to invest in the MF through SIP.

He started monthly investing. Without break he invested for 26 months. Afterwards one day he asked me, whether he can redeem the money as he had to pay the medical bills of his wife. I said yes, you can. His investment of Rs. 26,000 (Rs. 1,000 per month X 26 months) had grown to Rs. 46,000 after 26 months. He wanted to redeem the full amount of Rs. 46,000. He has gained Rs.20,000 for the total investment of Rs. 26,000. It works out a gain of 76.9% for investment period of 26 months..

In this 26 months, his daughter has got a local job with a salary of Rs. 7,000 per month. After redeem of the full amount Rs. 46,000, I asked the worker whether he want to continue with the SIP investment or not. His reply made me to feel happy. He told me that his daughter has instructed him to increase the SIP amount to Rs. 2,000 per month. Still this SIP investment is going on.

I felt satisfied, because I succeeded in Financially Literate a poor girl to some extent.

## Conclusion:

In the present scenario Financial Literacy (FL), Financial Planning (FP) and Estate Planning (EP) are the need of the hour to become wealthier. For the people who want to become wealthier, MFI having the ways & means. But investors should understand that Long duration of investment and patience yields more wealth.

For Wealth Creation, safest way is to obtain the Financial Literacy (FL) and invests in MFI with long term planning and proper Financial Goals (FG) and Financial Planning (FP).

To inculcate the FL, FG, FP to each and everyone it is the responsibility of Financial Academicians, Financial Institutions and Financial Regulators.

Do not forget that **"TO BORN AS POOR IS NOT ONE'S MISTAKE BUT TO DIE AS POOR IS ONE'S OWN MISTAKE"**

ISBN code 978-93-83302-71-0