ISBN: 978-81-974088-9-2

5. Introduction to Financial Education for Teens

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Abstract:

The chapter on financial education for teenagers in India provides essential guidance tailored to the unique needs and challenges faced by young individuals navigating today's economic landscape. In order to help teenagers visualize their future ambitions and break them down into attainable milestones, it highlights the significance of goal setting as a fundamental stage in financial planning. The chapter gives teens the fundamental knowledge and skills they need to manage money sensibly and lay a solid financial foundation from a young age by offering helpful tips on saving and budgeting. The chapter also introduces youngsters to the range of financial options available to them and examines the definition of investment.

Keywords:

Investment Asset Classes, Financial Education, Managing Risks, Marketable Securities, Investing.

5.1 Introduction:

In an era where financial decisions shape our daily lives more profoundly than ever, equipping the younger generation with essential financial knowledge is not just beneficial but imperative. The youth of India's economy stand to gain a great deal from their capacity to make wise financial decisions as it develops and becomes more integrated into the world economy. The 21st century has seen a rise in the importance of financial education because of complicated financial products, a propensity for fraudulent schemes, and government and regulator deregulation initiatives.

Managing finances effectively is a crucial skill that empowers teens to navigate their financial journey with confidence and responsibility. Teenagers who receive financial education should not only be taught about the fundamental financial principles, but also how to prepare for the future, handle risks, and manage money well. This chapter emphasises how important it is to teach these skills to teenagers at a young age because they will be responsible for their own decisions in the future, which will affect their chances and financial security. Teens are introduced to the wide range of investment options accessible, ranging from more complex instruments like mutual funds, equities, and digital assets to more conventional ones like savings accounts and fixed deposits. This chapter equips teens to make decisions that are in line with their financial objectives and risk tolerance by clearly outlining each investment option, along with the risks and possible rewards that go along with it.

This chapter aims to close the gap between academic knowledge and practical steps by providing Indian youths with guidance towards financial empowerment and independence through real-life examples and practical counsel.

5.2 Understanding Financial Education:

Financial education teaches the skills and attitudes necessary to understand money and finance. It covers right from the budgeting basics to understanding investments, from managing expenses to planning for long-term financial goals. Gaining an understanding of finance gives us the information and abilities we need to handle money wisely. It promotes financially responsible behaviour and assists us in making well-informed decisions. In this chapter, a step-by-step guide is given for teens in India to begin their finance education.

5.3 Planning and Managing Finances as a Teen:

A. Managing financial goals:

Some goals are pure financial goals, whereas some are not entirely financial but rely on their purpose and time. We should begin our finance education by setting SMART goals. The word SMART stands for "Specific Measurable Achievable Relevant and Timely".

For example: If you want to buy a mobile phone, say: *"I want to buy a Samsung Galaxy S24 5G Ultra phone worth one lakh fifty rupees in 5 years"*

Specific: Your goals, be it purely financial or theoretical goals, should be specific. Be specific about the financial need, time need, and other goal influencing factors like region, rules and regulations, economic status, etc.

Measurable: One common thing about financial goals is that they need money and money is quantifiable. See the quoted example again.

What kind of phone? *A Samsung Galaxy S24 5G Ultra phone*.

What should it be worth? Rs.1,50,000.

In how many years? 5 years.

Give your financial goals measurable numbers and values. Never use the word "approximately" or "near about".

Achievable: Set financial goals which are achievable. You won't aspire too high and accept less because you'll be aiming for certain-shot financial targets. For a phone worth Rs.1,50,000 in 5 years, you will need to save nothing less than ₹2,500 per month.

If only this is possible for you, you are good to go. You have an achievable financial goal.

Relevance: One of the simplest yet important steps. Make your financial goals relevant to your life and dreams. Is this phone be worthwhile for your occupation or degree after five years? Your financial objectives will be relevant if you define them based on your dreams and then direct your financial plans in that direction.

Timely: Time, like money, is an important dimension of your financial goal. If you can buy a refurbished phone for less money, you most likely won't need a new phone. Since it won't interfere with your other financial goals, you can take your time in achieving it. However, you can't afford to squander time on your studies. You must then prioritise the financial aim in your planning over other financial objectives. Giving time frame to your SMART goal also includes identifying short-term (e.g., buying a new gadget), medium-term (e.g., saving for college), and long-term goals (e.g., retirement planning).

Simultaneously you should also begin understanding the 'Time Value of money'. Value of ₹100 in 2024 and Value of ₹100 in 2030 are not the same, because what we are able to buy in 2030 will be much less than what we could have bought in 2024. So value of money is always related to Time. This concept is called "Time Value of Money" Since Money's value is reducing every year, money has to be invested so that it earns returns to grow and at least maintain its value. (IMPACT OF FINANCIAL LITERACY ON SOCIETY, n.d.)

B. Begin Savings:

Now that the goals are set, begin by Savings: Cultivate a habit of saving a portion of income regularly. It is the money set aside for future use and not spent immediately. Create a timetable to calculate your savings require for your SMART goal. Here is a list of examples:

Table 1: Estimation of required daily savings

Sr. No.	Goal	Money Required	When?	Number of Days	Saving per day
1	Dell Laptop (Model no…)	Rs. 73,000	24 months	730 days	73,000/730 = Rs.100
2	Online certification course from Harvard	Rs.39,000	12 months	365 days	39,000/365 = Rs.107
3	Movie treat with grandparents & their friends	Rs.5,400	3 months	90 days	5,400/90= Rs.60
4	Books for donation to street children	Rs.6,000	6 months	180 days	6,000/180= Rs.34

To save more efficiently, teenagers may do the following:

Differentiating Needs vs. Wants: Practice mindful spending by distinguishing between essential needs and discretionary wants. Need is a necessity, something that is required, something that is essential for life . Want is a desire, something that is wished for, something that is non-essential.

Needs are limited, wants are unlimited. The less you spend, the more you save! Comparison Shopping: Compare prices and look for deals before making purchases. Utilize discounts and offers wisely.

Leveraging Technology and Resources: Use budgeting apps, investment platforms, and financial calculators to manage finances efficiently.

Creating a Budget: Track sources of income (e.g., allowances, internships, part-time jobs) and regular expenses (e.g., school fees, transportation) finally begin to think of investments. Use apps or spreadsheets for better tracking.

Open a Savings account in a bank: Short-term savings are easily saved using savings accounts. Any bank will allow you to deposit money into a savings account. Envisaging universal access to banking facilities, "Pradhan Mantri Jan-Dhan Yojana (PMJDY)" under the National Mission for Financial Inclusion was launched on 28th August 2014. PMJDY brings about the objective of financial inclusion for all by providing basic banking accounts with a debit card with inbuilt accident insurance.

The main features of PMJDY include Rs. 5,000 overdraft facility for Aadhar-linked accounts and a RuPay debit card with inbuilt Rs. 1 lakh accident insurance cover. The National Payments Corporation of India introduced RuPay, an Indian-multinational payment service. RuPay Debit cards are issued under the domestic debit card scheme and can only be used for domestic transactions. These cards can only be used to withdraw cash from ATMs and make online payments within the domestic boundary only. In addition, when compared to Visa and MasterCard, these cards have lower processing cost and time.

The savings account will offer you a small interest rate while protecting your savings. You are free to withdraw your money at any time. The Deposit Insurance and Credit Guarantee Corporation (DICGC) insures all deposits such as savings, fixed, current, recurring, etc. Each depositor in a bank is insured up to a maximum of Rs. 5,00,000 for both principal and interest amount held by the depositor.

5.4 Introduction to Investing:

Investment is an activity that is undertaken by those who have savings. Savings can be defined as the excess of income over expenditure. However, all savers need not be investors. Expectations distinguish the investor from a saver. The motive of savings alone does not make a saver an investor.

The expectation of return is an essential characteristic of investment. This expectation brings with it a probability that the quantum of return may vary from a minimum to a maximum. This possibility of variation in the actual return is known as investment risk. Thus, every investment involves a return and risk.

One must learn about different investment options like mutual funds, stocks, and government schemes and understand the risks and returns associated with each option.

Recently, the Securities and Exchange Board of India (SEBI) in association with National Institute of Securities Markets (NISM) has introduced an examination named “SEBI Investor Certification Examination” with an aim of fostering Financial Literacy and Investor awareness in Indian Securities Markets.

This exam aims to empower prospective investors, enabling them to make informed choices and navigate the complexities of financial investments effectively.

5.4.1 Investment Asset Classes (Options for Teens):

An investment is like planting a tree. If monitored regularly and allowed sufficient time to grow, good returns can be expected. There are numerous investment avenues available in India for teens with limited savings. Some of them are:

5.5 Non- Marketable Securities:

- Deposits (Bank Term deposits): Famously known as FDs, this is a bank product where you can deposit money for a predetermined amount of time. A fixed deposit receipt is generated for the depositor, which they must present when the deposit matures. Although withdrawals are prohibited, depositors may request the closure of their fixed deposit account in an emergency by paying a penalty. Bank deposit interest rates in India vary depending on the type of deposit, maturity period, and the bank's policies. The Reserve Bank of India (RBI) sets guidelines and regulations for interest rates offered by banks. Interest earned on bank deposits is subject to income tax as per the prevailing tax laws in India. However, Form 15G and Form 15H are self-declaration forms that an individual submits to the bank requesting not to deduct TDS on interest income as their income is below the basic exemption limit. Bank deposits in India are regulated by the Reserve Bank of India (RBI), which is the central banking institution.
- Deposit schemes offered by the Indian Postal Department: Post Office Monthly Savings Account (POMIS), Post Office Savings Account, Post Office Time Deposits (1,2,3 and 5 years), Post Office Recurring Deposits.(*Post Office Savings Schemes*, n.d.).
- Government Small Savings Schemes:
- Savings Certificates: National Savings Certificate (VIII Issue),Kisan Vikas Patra, Mahila Samman Savings Certificate.
- Social Security Schemes: Senior Citizens Savings Scheme, Sukanya Samriddhi Account, Retirement products: Atal Pension Yojana, Public Provident Fund, National Pension Scheme, EPF Scheme, EPS Scheme, Annuity products.
- Company / Corporate Fixed Deposits: Companies, including non-banking financial companies (NBFCs) and public companies, can accept corporate deposits under the provisions of the Companies Act, 2013. The acceptance of corporate deposits is subject to compliance with rules and regulations prescribed by the Ministry of Corporate Affairs (MCA) and the Reserve Bank of India (RBI). Companies accepting corporate deposits are often required to obtain credit ratings from recognized credit rating agencies. The credit rating provides an assessment of the company's ability to repay the deposits based on its financial strength, management quality, and other relevant factors. These ratings are provided by independent credit rating agencies like CARE, CRISIL, ICRA etc.

5.6 Marketable Securities:

Marketable debt securities are government bonds and corporate bonds. One can trade these on the public exchange, and their market price is also readily available. Bonds can also be purchased through Mutual Funds. The Reserve Bank of India (RBI) launched the ground-breaking RBI Retail Direct Scheme with the goal of providing retail investors with a direct channel for investing in government securities, or G-secs.

This programme makes it easier for investors to register a "Retail Direct Gilt (RDG)" account with the RBI and buy and sell government securities with ease. Investors can utilize the RBI Retail Direct platform to invest in four main types of government securities:(*FAQs on RBI Retail Direct*, n.d.)

- Government of India Dated Securities (Dated G-Secs): These are long-term debt instruments issued by the Government of India, with tenures ranging from 5 years to 40 years. They offer fixed or floating coupon rates paid semi-annually, with a minimum investment of ₹10,000 and no upper limit.
- Government of India Treasury Bills (T-Bills): T-Bills are short-term debt instruments issued by the Government of India for tenures of 91 days, 182 days, and 364 days. They are zero-coupon securities, issued at a discount and redeemed at face value. The minimum investment amount is ₹25,000.
- State Development Loans (SDLs): These long-term dated securities are issued by State Governments and have tenures of 10 years. The minimum investment amount is ₹10,000.
- Sovereign Gold Bonds (SGBs): SGBs are government securities denominated in grams of gold and serve as substitutes for physical gold. The minimum investment is equivalent to 1 gram of gold, with a maximum investment limit of 4 kg for individual investors. The investment tenure is 8 years, with an annual interest rate of 2.5% until maturity.

Marketable equity securities are common stock and most preferred stock as well. Shares represent ownership in a company. When you buy shares of a company, you become a shareholder, and your returns depend on the company's performance. Shares have the potential for significant capital appreciation but also come with higher risk and volatility on account of company specific risk, economic conditions etc. One can also easily trade them on the capital markets (primary & secondary), and their market price information is easily available. The **Primary Market** is a place where new issues of shares or other securities are offered to investors. Examples are initial public offers (IPOs) for shares, corporate bonds, and government bonds. The **Secondary Market** is a place where an investor can buy/sell shares or securities from another investor rather than the issuer. The Bombay Stock Exchange National Stock Exchange of India Limited (NSE) and Metropolitan Stock Exchange of India Limited (MSE) are example of such a stock market, or stock exchange.(*Booklet on Securities Market- Understanding from Investor's Perspective*, n.d.)

To begin investing in the securities markets, you as an investor will need:

- Savings Account with a Bank (a normal bank account where your money resides)

- Trading Account with a Stock broker (a share broker account which allows you to trade in equity)
- Demat Account with a Depository institution (it holds the equity shares purchased by you).

When the account holder buy shares through trading account; the money gets automatically debited from the saving bank account and share are automatically credited to the demat account.

Similar way when shares are sold through trading account; the money gets credited to the bank account and shares are withdrawn from demat account. The money remains in your bank account can be used like any normal bank account (i.e. you can withdraw that using your debit card).

Mutual Funds: A pool money from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities. Mutual funds offer diversification and are suitable for investors who lack the skills to invest directly into the capital markets and therefore entrust their savings to professional fund managers to invest for them in return for a small fee. As per their underlying portfolio, mutual funds can be classified into Equity, Debt, Hybrid, Money Market, and Multi Asset Mutual funds.

However mutual funds do not guarantee assured return as their value may fluctuate as per the market movements. Past results does not guarantee future performance of any mutual fund scheme. However, teenagers with limited monetary resources can begin their investment journey with mutual funds as they give the advantage of professional management, risk diversification, liquidity and affordability .The most convenient way to start investing in Mutual funds is through Systematic Investment Plans which give you the benefits of rupee cost averaging and compounding.(*Types of Mutual Funds*, n.d.)

5.7 Managing Risks:

You cannot eliminate investment risk. But one basic investment strategy is to have a diversified portfolio of the different assets/ securities mentioned previously. This can help manage both systemic risk (risk affecting the economy as a whole) and non-systemic risk (risks that affect a small part of the economy, or even a single company). Understand your risk appetite as well as your financial personality. Are you a aggressive person or a conservative person or you remain neutral in most of your life decisions. That will help you decide the level of risk you can expose your money to. Marketable securities will always have higher risk than the non-marketable securities.(Kumar & Mehta, n.d.) The bottom line is that all investments carry some degree of risk. By better understanding the nature of risk, and taking steps to manage those risks, you put yourself in a better position to meet your financial goals.(*Investing Basics: Risk*, n.d.)

5.7.1 Important Considerations for Teens Managing their Finances:

- Explore educational online resources, workshops, and seminars to enhance financial knowledge continuously. Securities and Exchange Board of India (SEBI), Reserve

Bank of India (RBI), Association of Mutual Funds in India (AMFI) and national Centre for Financial Education (NCFE) regularly conduct investor awareness and financial literacy workshops throughout the country.
- Build financial resilience by building an emergency fund: Set aside funds for unexpected expenses or emergencies to avoid reliance on loans or credit. At least six month's expenses should be out away in this fund.
- Seek timely advice by consulting parents, teachers, or financial advisors for guidance on complex financial decisions.
- Protect your investments from unregistered influencers on social media channels.

Planning and managing finances as an Indian teen involves learning fundamental concepts, cultivating good habits, and adapting to changing economic landscapes. By mastering these skills early on, teens lay a solid foundation for financial independence and stability in adulthood. With dedication and informed decision-making, Indian teens can navigate financial challenges confidently while striving towards their goals and aspirations.

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