EDUZONE: International Peer Reviewed/Refereed Multidisciplinary Journal (EIPRMJ), ISSN: 2319-5045
Volume 11, Issue 2, July-December, 2022, Available online at: www.eduzonejournal.com

Financial Literacy Initiatives entails Behavioral Insight Approach: Ideas

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ABSTRACT

Behavioral researches evident that retail investors possess irrational decisions behavior and suffering from psychological, cognitive and social biases that influence decision. Individual tends to employ heuristics and practice personal biases to simplify decision situation instead of accessing to comprehensive information.Though various financial literacy programmes has been initiated in different countries, yet the studies evident failure to assure desired outcomes of such initiatives in consumers. The consistent financial interventions are need of an hour to achieve desired results. Regulatory bodies are facing challenge of developing simple and cost effective financial educational programme in the light of Behavioral Insights(BI). The present study aims at suggesting usage of behavioral insights in financial literacy initiatives for efficacy in consumer behavior based on literature review and OECD recommendations.

Key words: Financial attitude, Financial Behaviour, Financial perception, Financial Planning, Investor behavior, Investor attitude, Investor perception

SUBMISSIONS

With the growing magnitude of Financial Literacy around the world to achieve financial stability, the stakeholders of national and international agencies like OECD & other organizations are eager on developing the education system or financial literacy environment among countries at large. Financial Education and Literacy refers to a combination of delivering knowledge or information, skill-building practices and motivation to bring the desired change in financial behavior (Hilgert, et.al., 2003) related to money management.

According to OECD (2017), Behavioral Insight is the discipline under Behavioral Science and Behavioral Economics that helps in developing behavioral model by understanding and discovering irrational variables that affect decision behavior. Behavioural Insight collaborates with disciplines such as psychological, cognitive sciences and social sciences to discover the insights that help in establishing a model to develop further learning initiatives. The application of Behavioral Insights aims to improve the consumers' decisions through policy and regulatory interventions. These interventions must be grounded on settled methods by empirical pieces of evidence through experimental researches.

During the data collection, the respondents were not found to be curious about knowing and receiving financial information, to begin with, during the pilot study. To make the intervention session interesting and interactive, the session has been improvised with animated videos and quizzes for making the learning environment more interesting and fun learning. After the intervention, people were curious and ready to attend more sessions on understanding financial products for investment purposes and creating more passive income for financial freedom.

Tokar Asaad (2015) highlighted that financial literacy has two components: 1) actual knowledge 2) perceived knowledge related to financial aspects. Based on national survey data from the USA, the study identified financial confidence as the key component of financial literacy. Overconfident people have low-actual- financial knowledge, thus tend to take risky financial decisions. There is a difference between factual financial knowledge and perceived knowledge. Thus financial literacy initiatives should be focused on providing factual financial knowledge and also creating accurate financial confidence among individuals.

Tim Kaiser, Lukas Menkhoff (2017) conducted a meta-analysis study of 126 impact evaluation. The study revealed that there is a significant impact of financial education on financial behavior and also to some extent on financial literacy too. The study revealed that financial education intervention had an assorted impact as financial education is less effective in low-income economies. Moreover, mandatory financial education found to be less effective. The study highlighted the term ‘teachable moments’ as the most effective element in financial education.

showing initiatives taken worldwide in the domain of Financial literacy and Financial Education

Year	Development	Focus Area
1914	'Cooperative Extension Services' were introduced in the U.S. under the 'Smith-Lever Act'	To provide financial skills to the people as a part of the 'Developing skills programme' which were vital at home
The 1950s	Development in research area especially in the field of 'Home Economics'	Various researches were conducted related to financial management, income and expenditure, retirement, savings and budgeting
The 1970s	Credit Union formed 'National Youth Involvement Board(NYIB)' in the U.S.A.	The focus of the Union was to provide financial literacy to the youth of the Nation.
1995	'Jumpstart Coalition' was formed in the U.S.A.	The organization campaigned for personal financial literacy
1996	Survey Conducted by 'Jumpstart Coalition	The survey was related to financial literacy by Dr Lewis Mandell
2000	Financial literacy meeting in Japan	The finance ministry of Japan convened the meeting with the agenda to promote financial literacy reason being rapid financial liberalization in the economy
2002	Central Council of Financial Services Information(CCFSI), Japan	CCFSI issued and published guidelines related to the promotion of consumer financial education in Japan.
2002	The prominence of Financial Literacy recognized by OECD Government Official	OECD launched the comprehensive project
2003	The financial Service Authority (F.S.A.), United Kingdom	F.S.A. initiated a national strategy on 'Financial Capability' and the term 'Financial Capability' gained recognition throughout European and African countries.
2003	Inter-Governmental Project by OECD for setting standards for Financial Literacy and Education	The objective of the project was to develop common principles of Financial Literacy
2003	Financial literacy Commission was set up in the U.S.A.	The objective of the commission is to promote financial literacy and develop strategies for financial education.
2004	U.S.A. Senate designated 'April' as 'Financial Literacy Youth Month.	Resolution 316 was passed to recognize April 2004 month as ‘Financial Literacy for Youth Month’.

Year	Development	Focus Area
2004	Financial Literacy Foundation was established by the Australian Government	The foundation officially launched an educational website "Understanding Money". Later, the functions of the foundation were given to ASIC (Australian Securities and Investment Commission)
2004	360-degree Financial Literacy, American Institute of CPAs	A volunteer effort by Certified Public Accountants by launching this '360-degree' website that offers general information related to managing personal finances and focuses on financial education
2005	OECD published a comprehensive report on International Financial Literacy Survey	The purpose of the survey to analyze financial literacy surveys in different countries
2008	Creation of International Network on Financial Education by OECD/INFE	To develop research and comparative analysis and design policy instruments to promote effective implementation and monitoring.
2008	$15 Million Russian Financial Literacy Programme in partnership with the World Bank and the Russian Federation	The partnership of Russian federation and the World bank announced the mentioned programme to support the international program in financial literacy and education
2009	November 2009 termed and celebrated as 'Financial Literacy Month' in Canada	Financial Consumer Agency of Canada (FCAC) and the Financial Literacy Action Group (FLAG) announced November 2009 as Financial literacy Month
2010	Consumer Financial Education Body (CFEB), United Kingdom	CFEB later rebranded as ‘Money Advice Services’ was established 26 April 2010 to develop financial capability under the Financial Services Act 2010
2010	Consumer Financial Protection Bureau (CFPB), the U.S. under the Dodd-Frank Act.	The objective is to promote financial education by engaging consumers and education groups.
2011	Financial literacy Initiative by The Republic of Azerbaijan	The initiative aimed to promote financial education
2011	A National Financial Literacy Program by State Bank of Pakistan	The motive of the initiative was to create financial awareness among the general public
2011	Financial Education initiatives by the Central Bank of Sri Lanka	To aware the general public and to promote financial inclusiveness among low-income groups.
2012	Money SENSE, Financial Education Agenda in Singapore	National financial education programme was launched by Singapore Polytechnic Institute for Financial Literacy
2021	Financial Literacy Week-February 08-12,2021 by RBI	In India, RBI’s Financial education initiatives, To promote awareness on key areas “Credit Discipline and Credit From Financial Institutions”.

National Centre of Financial Education(NCFE) is planning to introduce financial education in India through structured future initiatives under 'National Strategy for Financial Education: 2020-2025'. NCFE's strategy is based on 5C's approach i.e.:

1. Content development,
2. Capacity building,
3. Community involvement,
4. Communication innovative ways and,
5. Collaboration of stakeholders.

For designing effective financial literacy and educational initiatives, there is a need to address two approaches:

- The programme and initiatives must contain elements of awareness along with the motivation for behavioral change in investor consciously.
- The context and environment must be taken care while creating such initiatives.

Such efforts such as 'nudging' aims at convincing individuals to behave rationally after analyzing and assessing their system.

Behavioral Insights approach in Financial Literacy and Financial education initiatives

In India, the National Centre for Financial Education(NCFE) under the umbrella of RBI, SEBI, IRDAI, PFRDA has initiated various solutions to enhance financial literacy level at the mass level using mass media and social media platform. Despite such initiatives, respondents under the present study had no idea of such initiatives. NCFE is planning to introduce financial education in India in the existing education system in future initiatives under 'National Strategy for Financial Education: 2020-2025'. As per OECD recommendations, there is a need of designing effective Financial Literacy and Financial education in light of Behavioral Insight (BI).

The following suggested techniques can be considered for desired behavioral outcome while designing effective financial literacy programmes.

1. Keep it Simple, Rule of Thumb

Generally **l**earners incorporate Ray Dalio's 3 simple 'Rule of Thumb' that is based on principles and teaching fundamentals in the decision behavior instead of traditional financial knowledge. The chances of procrastination and misunderstanding are less under this method. This rule of thumbs helps in tackle & reducing the chances of heuristic and behavioral biases. The rules are as:

1. Debt/loans must not rise faster than income otherwise debt will crush debt raiser eventually.
2. Income must not rise faster than productivity otherwise person will be uncompetitive eventually.
3. Everyone must keep on working to increase productivity as it is the most important that matters in the long run

2. Mass Media and Social media

Mass Media is considered as a powerful tool to create an impact on behavioral aspects by engaging emotionally the large audience with educational content or stories. The World Bank report highlighted the economic impact of financial literacy using mass media i.e. Television Soap-opera on debt management in South Africa. The show was successful, as viewers were less likely to engage in gamble and hire purchase agreements due to awareness. Most of the population participate actively on social media. Social media can be the best source to impart financial education. The resources like designed quizzes, financial games for kids, interactive live session or webinars and an animated short video can be chosen for effective delivery of messages at mass.

3. Teachable Moment

The term can be defined as the moment where a student is curious to learn about the topic**.** Robert Havighurst popularized the term 'teachable moment' in 1952 and emphasized the right time for effective learning by repeating the important time for students' teachable moments so that students can be benefitted. Providing basic financial education and money management is essential but creating teachable moment is also an essential element in financial education initiatives. 'Teachable moments can be based on their life-cycle events for building financial capacity among consumers. The teachable moments are the informed moments, when a person is about to make financial decisions for occasions such as starting education; getting married; having children; making home and household; retiring and social security at the time of the first paycheck or earning; benefits of getting insured; understanding risk appetite at the time of investment.

4. Visual Tools Counseling

In the US experiment report, the level of self-efficacy and financial knowledge is considered to be higher in users who were learning through videos or interactive programmes than text-based or passive educational programmes (Lusardi et.al, 2014). Thus Behavioral insights emphasise on use of visual tools in financial literacy initiatives.

5. Financial Coaching

Customized coaching experiments are evident to be more impactful on behavioral change than on financial knowledge. However, keeping participants motivated for consistent attendance in coaching sessions remains a challenge.

6. The Trans-theoretical Model of Change (TTM) –

TTM is anintegrating psychological model of behavioral change. The model elaborates how people modify a problem behavior or acquire a positive behavior. This model is based on assumption that behavioral change is not a discrete event rather it is a long process. The model explains stages of change: pre-contemplation, contemplation, preparation, action, maintenance and termination. The application of this model can provide a base for the development of effective and impactful intervention and financial literacy initiatives. It is evident through a survey showing that most of the financially distressed people are in the pre-contemplation stage (Prawitz et.al, 2007) which means people may not be aware of the problem or probably have no intention to alter their behavior. The application of the model for Personal Finance management suggests that it might be more effective to first teach 'an avoidance strategy to limit impulsive purchases among individuals, before bringing an ‘approach strategy’ of saving among the individuals (Berriche et.al,2014).

7. Digitalisation of Financial Education

The current study suggests that respondents possess a low level of Financial Literacy, and significant improvement is found in their financial decision behavior with Financial Literacy Intervention. It is observed that respondents possess irrational economic behavior related to implications of inflation, and have misconceptions about financial terms suffers from compulsive buying habits, lack awareness of investment avenues, retirement planning and estate planning. The unconscious economic behavior can be improved with the intervention of financial literacy. Though the National Council of Financial Education, under the Umbrella scheme of RBI, SEBI, and IRDA, aims to impart Financial Literacy with an objective of Financial Inclusion, yet many efforts have to be made on implications of the initiatives at a faster speed. The digitalisation of financial education at a mass level can help in achieving Financial Literacy at a rapid rate.

8. Infuse ‘Financial Culture’ to achieve Financial Inclusion

It is the suggestion to the authorities to introduce money management skills courses as elementary education system at the school level, so that money management skills can be adopted as part of cultural values and to achieve Financial Wellbeing of humankind.

The OECD report on ‘Behavior Insight’ in financial literacy initiatives’ discusses two selected psychological theories i.e. 1) Theory of Planned Behavior and 2) Financial Socialization. The theories study various factors and variables that have the potential of influencing or eventually changing financial behavior.

According to The Theory of Planned Behavior (TPB) (Ajzen, 2009) the intention of an individual determines his behavior and three factors that influence intention are attitudes, subjective norms and perceived behavioral controls. The strength of the model is its two variables; 1) subjective norms and 2) perceived behavioral control, which is subject to intervention. The theory explained the young adult's perceived behavioral control was one of the factors that are related to their financial wellbeing (Shim and Xiao et.al, 2009).

CONCLUSION

Financial literacy plays a vital role in achieving the goal of financial inclusion and consumer protection through awareness and educating the citizen of a Nation. Individuals will able to understand the impact of micro-and macro-economic indicators through financial literacy.

Through family socialization theory, it is suggested that family financial socialization is one of the key element that affecting financial behavior throughout the life of an individual. Thus it is very important to incorporate the element of involving the families as participants in the financial literacy initiatives.