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Dr. Aarju
B.P. Inter School, Begusarai,
Bihar, India

Role of financial institutions in financial education

Dr. Aarju

Abstract

It is a human tendency to be competitive and become smarter than neighbour. The competitiveness amongst peers or neighbours drives the individual towards excellence and the search for excellence has been the root of all education in human history. The history of mankind is testimony to the fact that arbitrage in knowledge has been leveraged by various groups to get dominance and also for bettering their lifestyles. In modern times a person who is more educated and knowledgeable gets advantage in financial transactions and this amount to social imbalance on account of lack of education. The concept of universal education is aiming at removing the unnecessary advantage of one group of people over the other group based on difference in knowledge levels.

Keywords: Financial institutions, financial education

Introduction

It is aptly said that give a man a fish and you will take care of his one meal but teach him how to fish and that takes care of rest of his life. For economic progress, it is not enough for an individual to earn an income, he also needs to make informed and wise decisions about what to do with the money once it reaches his hands. Failure to utilize the money prudently leads to growing debt, misuse of credit facilities and in the long run slows down economic growth. On the other hand financial literacy fosters improved standard of living and a confidence about the future. It assists in sound financial planning – in accumulation of assets, in funding of education of and also in planning for retirement – which in turn help build economy.

Although the necessity of financial education can be undeniably established the need for different segment of population for the same varies. It is critical for the population that has been traditionally under-served by our financial system. This strata is more vulnerable to the traps local money lenders and often fall prey due to lack of basic education and financial education may come secondary. However with large structure social reforms across rural India the things are improving and roles of Financial institution for such a social education program may be the topic for another seminar. The lack of basic financial intelligence is evident even in most educated class of society.

To accentuate the point let us look at one of the recent financial frauds in India. A financial instrument called “Investment in Teak Plantation” was promoted by some smart companies employing smart salesmen and attractive advertisement and had collected huge amounts of money under the scheme, manifesting different variants which ultimately turned out to be a big scam. The lack of knowledge about financial realities made substantially large group of the population to make investment in the scheme.

The personal financial well being of most individuals increases when the economy is strong and the collective wealth creation strengthens the economy. Financially strong households have higher consumption and are willing to make major purchases. They are also able to invest more into the banking system and are better equipped to make use of credit to start the small household businesses/cottage industries that provide jobs and incomes to thousands. This generates flow of fund and lot of economical activity and in turn contributes to facilitate the growth and fortification of the economy.

Corresponding Author:
Dr. Aarju
B.P. Inter School, Begusarai,
Bihar, India

Thus the problems facing financial market today are

1. **Right needs wrong solutions:** People have an innate urge to keep saving money for old age; more so when they get some windfall in a particular year. They would like to save it for a rainy day. The teak plantations offered an ideal solution wherein an investment made in thousands becomes even 100 fold within a period of 15 years and it was touted as an unending source of income at old age.
2. **Excessive dependence on own wisdom:** Often people overestimate their knowledge and wisdom and if a person makes them feel that they are smart, they are lured into investing money in a particular scheme. In the teak plantation scheme, people who had hardly any knowledge of tree plantation were taken into confidence by showing full grown trees which they believed as easily attainable.
3. **Complex nature of instrument and jargon:** When the idea of teak plantation was sold in couched, high sounding agricultural language and using botanical names it was believed as scientific explanation for plant growth and its economy.
4. **Influence of smart agents, consultants, publicity:** People tend to trust smart publicity and a glamorous outfit and equate it with security of investment and safety of returns.

Impact on FI

However, such wrong practices affect the financial organizations in a big way. Established financial institutions look for long-term relationships with customers and they think that short-term measures are not the solution for sustainable growth of both the customer and the institution, hence financial institutions have great significance in educating customers regarding the complexities of financial instruments and the market. Financially illiterate customers taken for a ride by fly-by-night operators can affect financial institutions in 3 ways:

1. Loss of immediate business because the money vanishes from the system.
2. Loss of sales people because the trained sales person will be tempted to shift his loyalty to the new instrument which is detrimental for the institution.
3. The biggest threat is the loss of investor confidence because of the domino effect of the loss he has suffered in one scheme. This will affect his level of confidence to invest money even in established schemes.

Why FI should take lead?

Hence, it is imperative to increase the spread of the financial literacy by persuading customers that they need financial education, to take control of their financial situation, to improve spending habits, to increase their savings/investments for future requirements, for children's higher education, to ensure prudent use of credit facilities and contribute towards growth and stability of the economy. To put it in a nut shell the need of the hour is to make the customer aware and prepared for the need of financial education and ascertaining, that they have access to it.

Conclusion

The Financial institutions and customers need to address this issue on different levels. The government should put regulatory frame-work in place and ensure necessary

legislature to protect interest of the consumer. The government should also issue guidelines and broad direction for the economy and financial sector to develop. On the education front government can run mass programs or promos warning general public against financial scams and frauds. The effectiveness of such campaigns can be gauged by recent success of campaign against polio. The customer on their part need financial awareness in the society and consumer groups which act to protect customer after the scam should take proactive measures to prevent future scams.

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