

CRISIL Young Thought Leader (CYTL) 2009

Category: Graduate

**Topic of dissertation: Is today's youth
oblivious to financial planning?**

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Executive Summary

Youth is also the beginning of responsibility.

Financial planning early on is important as this helps the youth plan their life in a better manner and take the advantages of the “power of compounding”, thus compromising on lesser number of “good things in life” and leading a balanced life.

The youth have their whole lives ahead of them, and ample time to plan for future and life after retirement. The issue is that few actually plan.

Everyone agrees that starting to save early has merit in it and "Money grows on the tree of patience" and there are benefits of “power of compounding”, but few actually practice it.

The power of compounding means that you are making the money work for you, year after year. You earn interest on interest, so the longer you are invested the higher you earn.

Savings for young people represent one of the most predictable determinants of their successful personal and economic development.

Young people desire to save, although they tend to postpone saving until they have higher-paying jobs or some stability in their lives. However, in developing countries, where opportunities for structured and institutionalized saving are rare, perhaps young people could begin saving earlier than expected, since they have other savings’

Ease of availability of credit is good if used prudently, but if used recklessly it results in mountain of debt. So it comes down to judgement and prudence.

In developing countries, a person’s gender, marital status, education (both financial and general), health, and parents’ wealth determine whether a young person will be able to save or not, and how much they will be able to save.

Young people’s interest and knowledge about savings and asset accumulation increase when they receive financial education from parents and schools. Formal financial training and schooling for young people instil a sense of responsibility for their financial affairs and future financial success.

The effects of financial training and schooling usually manifest over a long period of time, marking a young person’s transition to adulthood. For instance, in a study, findings showed that exposure to formal financial education at high school improve individual savings habits during adulthood.

The Brief

Is today's youth oblivious to financial planning?

It is said the earlier one starts financial planning, the better it is, to get the best from the power of compounding. But has this message been taken seriously by today's youth or are they leaving the financial future of their lives at the hands of destiny?

Your paper should also include the advantages of starting financial planning early in one's life and the pitfalls if one does not.

Is today's youth oblivious to financial planning?

The topic of dissertation I have chosen is both grave and exciting at the same time. Very relevant to people like us, who are on the threshold of joining the large maddening crowd called educated and highly qualified workforce. In this twilight zone I ponder, first on how does one define “youth” and secondly what encompasses “financial planning”. What it means to be “responsible”? Is it freedom vs. prudence, or can the two coexist? Are there widely accepted societal norm of “correct” behaviour? How come some look to have lived a balanced life and others reckless? What forms the basis for this supposedly different style, financial planning? I also started thinking as to is there a difference between how a “youth” in developed nation behaves vis-à-vis those in developing economies. “Youth” should be the same, so if they behave differently then why is that so, and what are the implications of it for us, in India and also for the corporate in the financial sector marketing products for them.

“Youth”

A French proverb, paraphrased, says forty is the old age of youth; fifty is the youth of old age. But is youth to be defined only in terms of numbers (age?). I think not. It's the behavioural characteristics that define youth too!

As beautifully said by H. W. Longfellow, “How beautiful is youth! how bright it gleams With its illusions, aspirations, dreams! Book of Beginnings, Story without End, Each maid a heroine, and each man a friend!”

But then youth is also the beginning of responsibility.

As, Benjamin Disraeli (1804-1881) British politician and author, famously said, “We live in an age when to be young and to be indifferent can be no longer synonymous.

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We must prepare for the coming hour. The claims of the Future are represented by suffering millions; and the Youth of a Nation are the trustees of Posterity.”

So true then and there, so relevant here and now! But is this happening?

“Financial Planning”

Becoming wealthy is not a matter of how much you earn, who your parents are, or what you do.. it is a matter of managing your money properly, so said Noel Whittaker Financial Author and Investment Advisor. How true!

But then you can count on Churchill to give you real gems, he said: “Saving is a fine thing. Especially when your parents have done it for you.”

But if your parents haven’t saved or saved enough, then we have to look at Noel’s advise closely.

Financial planning means understanding your future needs such as House, vehicle, kids, kids education etc and plan to save for it at the earliest. At the earliest because power of compounding is a very effective and potent tool at the hands of the saver.

The Situation

The youth have their whole lives ahead of them, and ample time to plan for future and life after retirement. The issue is that few actually plan. Even those that save a decent percentage of their take-home pay rarely plan for the future and tax saving like they should.

“The art of living easily as to money is to pitch your scale of living one degree below your means.” – Sir Henry Taylor but this advice does not seem to have found fan following it deserves. With the advent of credit card, things have reached murky zones. More on that later.

"A penny saved is a dollar earned." Said B. Franklin,

Everyone agrees that starting to save early has merit in it and "Money grows on the tree of patience", whether ones investment is in share market or bank, this illustrates the “power of compounding”. The power of compounding might show not a very significant jump in ones fortune but if understood and saved in youth, old age will become very comfortable.

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The power of compounding means that you are making the money work for you, year after year. You earn interest on interest, so the longer you are invested the higher you earn.

For example say if a person invests Rs 1 lakh per annum from the age of 25 till the age of 60. At a 10% rate of interest the value of his investment will be approx Rs 300 lakhs. But if he starts the process at the age of 31, the same will amount to only Rs 148 lakhs, or in other words, to get the same value at the age of 60, he will have to invest over Rs 2 lakhs per annum, i.e. double the earlier amount. This illustrates the power of compounding.

So it is prudent to define ones target saving one will need for various needs and start saving early, so that drastic measures won't be needed at the time of need. This is where financial planning helps.

Everyone or rather almost every one in this world would definitely want to have his or her future secured. Savings for young people represent one of the most predictable determinants of their successful personal and economic development. Having access to some form of savings provides young people with the opportunity for a high quality education, health care, entrepreneurship, and other asset-building avenues.

Savings mobilization for young people is considered low in developing countries, but creating and implementing policies to raise it is difficult, while some youth in developing countries have access to some credit, there was a huge unmet demand for savings and other financial services. Low savings might be a consequence merely of poor access to safe, flexible, convenient, and affordable savings products. In developing countries, young people typically rely on informal savings mechanisms.

According to studies, part of the transition from childhood to adulthood is the increase in personal aspirations and financial responsibilities, which encourages young people to pay more attention to savings. Young people desire to save, although they tend to postpone saving until they have higher-paying jobs or some stability in their lives. However, in developing countries, where opportunities for structured and institutionalized saving are rare, perhaps young people could begin saving earlier than expected, since they have other savings' methods, such as livestock and physical goods. Access to such opportunities is vital to the success of youth engaging in healthy saving habits. Currently, very few empirical studies have investigated the outcomes of youth savings in safe and secure bank accounts where investments were used to purchase an asset or held within an account for future use.

The Issues

Earlier, living beyond the means generally meant that if one earned Rs 10,000 but expenses were Rs. 15,000 one could be in a debt of, say, Rs. 5,000, not a pleasant situation to be in. Today this problem is compounded enormously because of the availability of credit. One may only make Rs. 40,000- 50,000 a month, but with three credit cards one could easily amass Rs. 1,50,000 or more in debt in the same month. Now one is Rs. 1,50,000 in the hole for the month and interest will accumulate because one can't pay this debt off.

Ease of availability of credit is good if used prudently, but if used recklessly it results in mountain of debt. So again it comes down to judgement and prudence.

“Too many people spend money they haven't earned, to buy things they don't want, to impress people they don't like.” – Will Smith

Then the question of the quantum of saving comes up.

How much should you save? There is no perfect answer to this question. However, you should save as much as you can without adversely impacting the quality of your life. In other words, it is OK to indulge in a night out once in a while, as long as it doesn't become such a regular occurrence that you aren't left with money to save.

The effects of savings on youth

There is evidence in literature of the effects of savings on young people. In a qualitative study of youth participation in savings programs, it was found that young people who save have a positive view of themselves, plan for the future, have a sense of security in times of shock, and are also cautious about spending and consumption. This finding is consistent with other studies that show that personal savings has direct benefits for youth. Most studies on savings were conducted in developed countries because similar empirical studies are scarce in developing countries. Furthermore, the studies in developing countries tend to focus on household savings and assets, rather than youth savings.

Determinants of savings for youth

Savings for youth is determined by many factors. In developing countries, a person's gender, marital status, education (both financial and general), health, and parents'

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wealth determine whether a young person will be able to save or not, and how much they will be able to save. There is differential treatment of sons and daughters on college attendance. Families are influenced by cultural norms on educational investments made for sons and daughters. In most cultures, families prefer investing in a boy's education because it is believed that the money a son earns from employment after graduation will remain in the family, whereas a girl's wealth will be given to her in-laws.

Marital status also affects a young person's asset accumulation. Historically, marriage has been viewed as a source of financial security and continues to be a determining factor for economic well-being, particularly for women. However, the process of marrying could also be a drain on a young bride's savings. According to a study, in South Asia, brides sometimes spend as much as three times their savings on dowries and six times their savings on lavish wedding celebrations. Therefore, asset effects of marriage would apply to young male and female couples.

Young people's interest and knowledge about savings and asset accumulation increase when they receive financial education from parents and schools. Parents can teach young people to cultivate the habit of saving. The National Savings and Investment survey of UK in 2005 revealed that young people developed the habit of saving when their parents discussed financial matters at home with them at a young age.

Two education arms of The Stock Exchange of Thailand (SET)--Thailand Securities Institute (TSI) and Family Know How Co., Ltd. (FKH)-- join in a project called "I Will Save" to promote savings habits among youth, family members, and society at large.

This is very true, in case of inculcating habit of saving in the youth. Parents need to understand that this might not give instantaneous results, but their efforts in this direction will eventually result in developing saving habits in their children. Some parents encourage their children to take over their businesses by exposing them to their financial matters. Formal financial training and schooling for young people instill a sense of responsibility for their financial affairs and future financial success. The effects of financial training and schooling usually manifest over a long period of time, marking a young person's transition to adulthood. For instance, in a study, findings showed that exposure to formal financial education at high school improve individual savings habits during adulthood.

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There is a huge unmet demand for saving among youth in developing countries. However, only about a quarter of households in developing countries have any form of financial savings with formal banking institutions. Having access to financial services is a fundamental tool to build productive capacity of households, to smooth expenditure when cash inflows are erratic, including during seasonality of crops or to protect against emergencies such as natural disasters or a death in a family.

One of the main constraints among dispersed or low income populations in accessing asset building or other financial services is the operational cost involved in expanding service areas with less developed infrastructure. One way to achieve universal access may be to adopt systems that employ a low-value, high-volume transactional environment such as branchless banking or mobile banking using cell phones and the internet. This banking system should allow people to pay into or cash out of their transactional and savings accounts and interact remotely in a trusted way using IT technology. By expanding and reducing the costs of IT, the future seems promising.

Conclusion

The youth of today have diverse avenues to spend their money, but we have seen earlier that, even though not too many studies on the habit of youth's saving habits in developing countries has been undertaken - but if we generalize the saving habits across geographies, if children are exposed to financial situation of the family then they inculcate the habit of saving at later stages in life or are given some formal training in financial planning then they are more likely to inculcate the habit of saving.

Hence in today's fast moving, competitive world the importance of financial planning is being understood by the youth. The earlier they start planning and saving in life the better it is for them, as this derives maximum mileage from the power of compounding, and the society as a whole. Though, in some backward places, there are limited avenues to invest/ save.

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OBJECTIVE

To enhance my learning and development supported by practical knowledge together with meeting the objective of the organization.

PROJECT

Objective: To design motor and motor controller compatible with IC engine.

Currently working on a joint project between Electrical & Electronics, Mechanical and Biotechnology departments for designing a hybrid car (Electric & Bio-fuel), under PACE (Partners for the Advancement of Collaborative Engineering Education, a joint initiative by General Motors, AOL, HP among others), using propriety mathematical tool.

EDUCATION

Qualification	Institute / Organization	Board / University	Year	% / CGPA
BE (E&E)	PESIT, Bangalore	Visvesvaraya technological university	2010	79.64%
XII	Indian Public School, Hajipur	C.B.S.E	2006	78 %
X	Nazareth Academy, Gaya	C.B.S.E	2004	89%

SEMINARS

- Study tour to **Warahi Hydrel Power Plant** and Main Receiving station in Shimoga: Received practical insight on power generation process by understanding the working of alternator and control measures involved.
- **Project tour to Reva electric car** factory in Bangalore under the PACE Hybrid car development project, which helped in understanding the various steps in production and testing of a car, through the design of a chisel to the final step of pressure and rain testing.
- Toured the **Moonidih Substation** and understood distribution of power for household as well as industrial consumer like the BCCL project.

TRAININGS

- Underwent **industrial training in GSM technology with BSNL GSM Division**. Understanding the communication channels, cell division, call transfer and working of the system interface.
- **Total Student Development Program (TSDP)**
 - Completed a course in Mobile Robotics: Designed and modeled a line follower robot under the guidance of Mr. Prabhakar Mishra (Assistant Professor, Department of Telecommunication, PESIT).

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- Designed & modeled a mp3 player, using a PIC microcontroller on the lines of Apple i-Pod, under the guidance of Mr. R. Choudhry (Assistant Professor, Department of Telecommunication, PESIT).
- Undertook interpersonal skills enhancement course under the aegis of science and humanities department.

ACHIEVEMENTS AND EXTRA CURRICULAR ACTIVITIES

- Received **Certificate of Merit** for mathematics from CBSE in class 10th for attaining a top 0.1% position nationally.
- Received **silver Medal** in “All India Mathematics Olympiad” conducted by All India Schools Mathematics Teachers Association.
- Awarded **M. R. Doreswamy (MRD) scholarship** from the college for being among the top 10 students in the department and having an aggregate above 80%.
- Serving as teacher’s assistant under **Student Assistantship Program** for ‘Digital Signal Processing’ in 6th semester.
- Organized and participated in IEEE GOLD interface 2008, held at PESIT on 20th September, 2008.
- Actively participated in debates, creative writing and quizzes and got certificates of excellence and merit.
- Participated in dramatics and painting competitions and got certificate of merit.
- Represented school in inter school basketball tournaments.