

ROLE OF FINANCIAL EDUCATION ACTIVITIES TOWARDS INVESTMENT DECISIONS IN AN EMERGING COUNTRY OF PAKISTAN

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Abstract: *Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon. There is no simple formula that can find the right asset allocation for every individual. Therefore, investors may use different asset allocations for different objectives. Financial Literacy is the education and understanding of various financial areas, and it includes the knowledge of making appropriate decisions about personal finance. This paper discuss the role of financial education activities towards investment decisions in an emerging country of Pakistan. Further, we discuss the importance of demographics and financial literacy towards the investment decisions in Pakistan.*
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Key Words: *Personal Finance, Financial Literacy, Investment Decisions, Pakistan*

1. Introduction

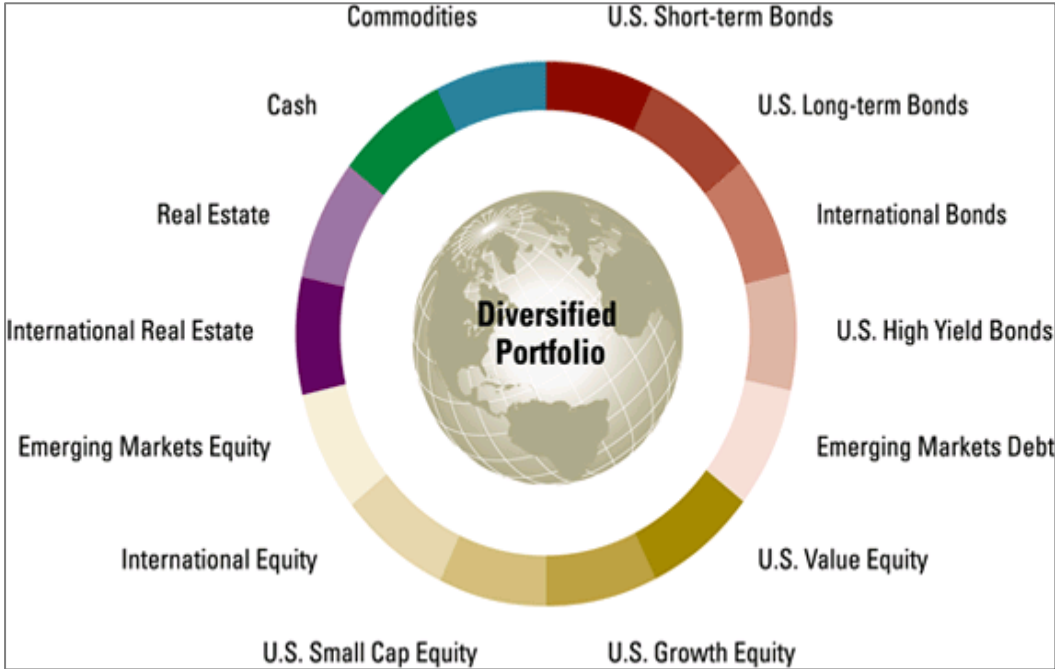
Personal finance defines all financial decisions and activities of an individual or household, including budgeting, insurance, mortgage planning, savings and retirement planning. All individual's financial activities fall under the purview of personal finance; personal financial planning generally involves analyzing your current financial position, predicting short-term and long-term needs and executing a plan to fulfill those need within individual financial constraints. Personal finance is a very individual activity that depends largely on one's earnings, living requirements and individual goals and desires.

Among the most important aspects of personal finance includes; assessing your current financial position - looking at expected cash flow, and current savings, buying insurance to protect yourself from risk and making sure your material standing is secure, calculating and filing taxes, savings and investment, and retirement planning. Many consumers simply do not have the

information to make the most rational financial decisions for themselves, or they are manipulated by circumstance or misinformation to perceive a decision as being more rational than it actually is. As such, many colleges and universities have begun to offer personal finance courses, and almost all media publications regularly produce material doling out personal finance advice to consumers. Matters of personal finance include, but are not limited to, the purchasing of financial products for personal reasons, like credit cards, life and home insurance, mortgages and retirement products. Personal banking is also considered a part of personal finance, including checking and savings accounts and new, 21st century banking products.

Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon. The three main asset classes - equities, fixed-income, and cash and equivalents - have different levels of risk and return, so each will behave differently over time. Asset allocation is the practice of dividing resources among different categories such as stocks, bonds, mutual funds, investment partnerships, real estate, cash equivalents and private equity. People believe that it is more profitable to be an owner of corporate America (viz., stocks), rather than a lender to it (viz., bonds

Figure 1: Representation of a Well Diversified Portfolio



There is no simple formula that can find the right asset allocation for every individual. However, the consensus among most financial professionals is that asset allocation is one of the most important decisions that investors make. In other words, the selection of individual securities is secondary to the way that assets are allocated in stocks, bonds, and cash and equivalents, which will be the principal determinants of your investment results.

Investors may use different asset allocations for different objectives. Someone who is saving for a new car in the next year, for example, might invest her car savings fund in a very conservative mix of cash, certificates of deposit (CDs) and short-term bonds. Another individual saving for retirement that may be decades away typically invests the majority of his individual retirement account (IRA) in stocks, since he has a lot of time to ride out the market's short-term fluctuations. Risk tolerance plays a key factor as well. Someone not comfortable investing in stocks may put their money in a more conservative allocation despite a long time horizon.

The richer and more developed countries of the world are ageing faster, including Germany, Japan and the US. Meanwhile, many countries in Africa and Asia still have a relatively young population.

Economists believe that those countries with younger populations may have higher economic growth in the coming years. They use a measure called the “dependency ratio”, which shows the number of dependents aged either 0-14 or over 65 compared with the population aged 15-64 to help measure this. Although this measure also looks at the growth in numbers of very young people, it is those in the over-65 bracket that are causing concern. A new way to look at personal finance, the Ecology of Investment series, produced by The Telegraph in partnership with Alliance Trust, will show how the complex global financial system, with interconnecting forces and needs, influences your investments.

If you are investing in countries that have an ageing population, it is worth looking at how their consumption patterns change. An article in the Journal of Political Economy by academics Mark Aguiar, from Princeton, and Erik Hurst, at the University of Chicago, found that older people spend differently – partly because they have more time to do things such as make meals at home rather than buy fast food, and partly because they do not have to buy work clothes and spend money commuting. By focusing on those products that an ageing population will consume, including healthcare, insurance and technology, it may be possible to harness your knowledge to take advantage of these demographic shifts (Baltov, 2013). Research by Goldman Sachs found that increased longevity, as might be expected, means more spending on drugs and treatments.

2. Financial Education and Investment Decisions

Financial literacy is the ability to understand how money works in the world: how someone manages to earn or make it, how that person manages it, how he/she invests it (turn it into more) and how that person donates it to help others. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions with all of their financial resources. Raising interest in personal finance is now a focus of state-run programs in countries including Australia, Canada, Japan, the United States and the United Kingdom.

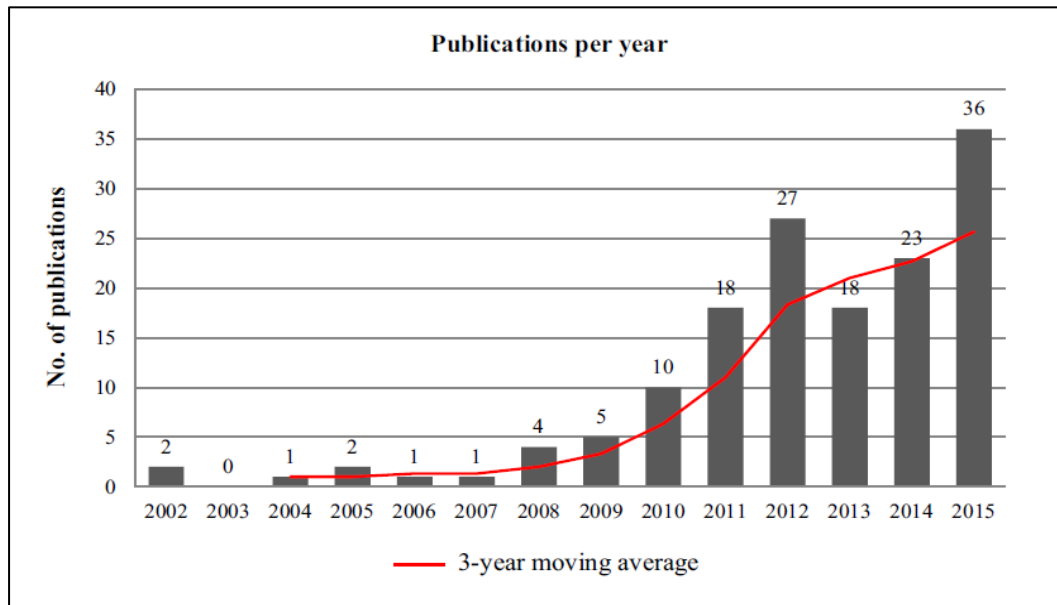


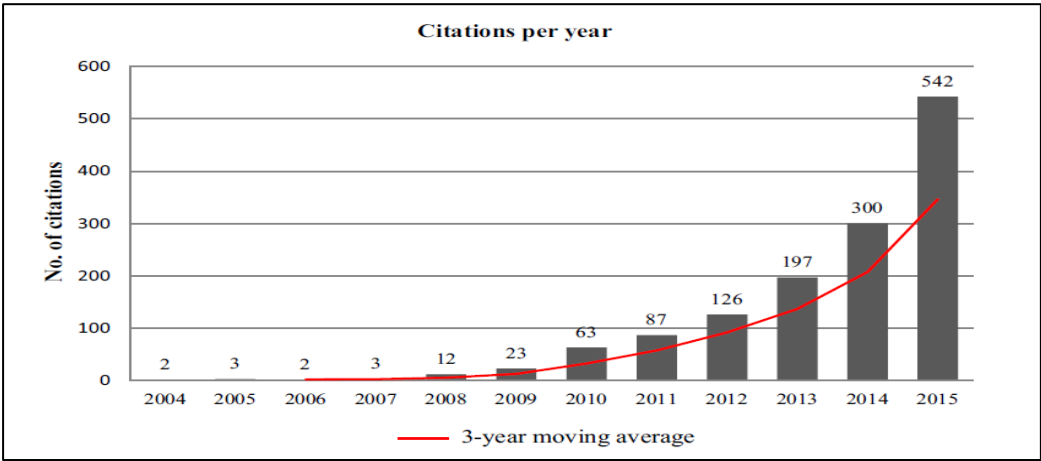
Figure 2: Number of Publication of Financial Literacy per Year

The Organization for Economic Co-operation and Development (OECD) started an inter-governmental project in 2003 with the objective of providing ways to improve financial education and literacy standards through the development of common financial literacy principles. In March 2008, the OECD launched the International Gateway for Financial Education, which aims to serve as a clearinghouse for financial education programs, information and research worldwide. In the UK, the alternative term "financial capability" is used by the state and its agencies: the Financial Services Authority (FSA) in the UK started a national strategy on financial capability in 2003. The US Government also established its Financial Literacy and Education Commission in 2003.

Financial education is increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance

its budget, buy a home, fund the children’s education and ensure an income when the parents retire (Baltov, 1999). Of course people have always been responsible for managing their own finances on a day to day basis – spend on a holiday or save for new furniture; how much to put aside for a child’s education or to set them up in life – but recent developments have made financial education and awareness increasingly important for financial well-being.

For one thing, the growing sophistication of financial markets means consumers are not just choosing between interest rates on two different bank loans or savings plans, but are rather being offered a variety of complex financial instruments for borrowing and saving, with a large range of options. At the same time, the responsibility and risk for financial decisions that will have a major impact on an individual’s future life, notably pensions, are being shifted



increasingly to workers and away from government and employers. As life expectancy is increasing, the pension question is particularly important as individuals will be enjoying longer periods of retirement. Individuals will not be able to choose the right savings or investments for themselves, and may be at risk of fraud, if they are not financially literate. But if individuals do become financially educated, they will be more likely to save and to challenge financial service providers to develop products that truly respond to their needs, and that should have positive effects on both investment levels and economic growth.

Figure 3: Number of Citation on Financial Literacy per Year

3. Financial Education activities in Pakistan

Pakistan's estimated population as of January 1, 2017 was 194.9 million people, making it the world's sixth-most-populous country, behind Brazil and ahead of Nigeria. During 1950–2011, Pakistan's urban population expanded

over sevenfold, while the total population increased by over fourfold. In the past, the country's population had a relatively high growth rate that has been changed by moderate birth rates. As of 2016, the population growth rate stood at 2.10%. When it comes to investing, some of Pakistanis think of gold, real estate and, occasionally, foreign currencies as investments.

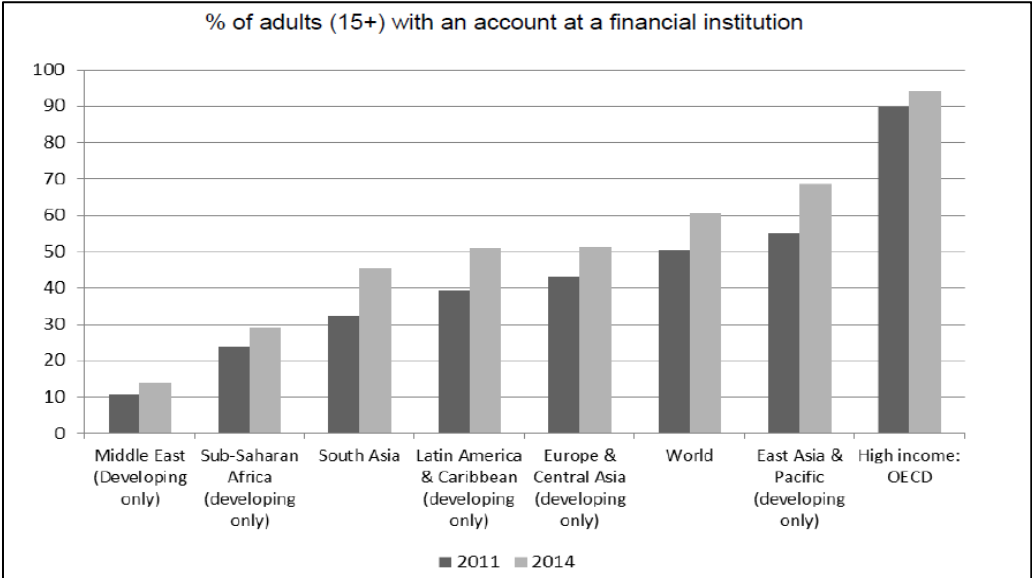


Figure 4: Financial Inclusion by Region, 2011-2014

In Pakistan, 57.9% of people of age 15 and over can read and write, while it includes 69.5% of male population and 45.8% of female population. The year wise age patterns of Pakistan shows that 31.99% of Pakistani population fall under 0-14 years, 21.31% of Pakistani population fall under 15-24 years, 36.87% of Pakistani population fall under 25-54 years, 5.43% of Pakistani population fall under 55-64 years, : 4.4% of Pakistani population fall under 65 years and over.

4. Personal Finance, Financial Literacy and Pakistan

Pakistan’s first-ever Nationwide Financial Literacy Program (NFLP) has been launched with the support and collaboration of Asian Development Bank (ADB), Pakistan Banks’ Association (PBA), Pakistan Microfinance Network (PMN), Pakistan Poverty Alleviation Fund (PPAF) and Bearing Point. The Nationwide Financial Literacy Program (NFLP) has been sponsored by the Asian Development Bank and launched by State Bank of Pakistan. The purpose of this program is to impart knowledge and understanding of basic financial concepts, products and services to low-income Pakistanis to enable better economic decisions. As a regulatory body, the State Bank of Pakistan (SBP) is committed to promoting access to financial services and has launched the Nationwide Financial Literacy

Program (NFLP) with an endowment under the Asian Development Bank’s (ADB) Improving Access to Financial Services Program.

*Table 1
Financial Literacy Highlights in Different Countries*

Financial literacy is a combination of knowledge, attitude and behavior, and so it makes sense to explore these three components in combination. Table 1 summarizes the proportion of respondents in each country achieving a high score on each of the three financial literacy components. There is some variation in relative strengths and weaknesses of respondents within countries: for example more than 4 times as many Armenians had a high knowledge score (46%) than a high attitude score (11%).

Countries	High knowledge Score	High behavior Score	High attitude Score
Albania	45%	39%	69%
Armenia	46%	41%	11%
Czech Republic	57%	48%	62%
Estonia	61%	27%	46%
Germany	58%	67%	63%
Hungary	69%	38%	69%
Ireland	60%	57%	49%
Malaysia	51%	67%	53%
Norway	50%	59%	57%
Peru	41%	60%	71%
Poland	49%	43%	27%
South Africa	33%	43%	54%
United Kingdom	53%	51%	49%
British Virgin Islands	57%	71%	67%

The pilot phase of the NFLP is being rolled out by BearingPoint Management and Technology Consultants. The entire program is managed by the Improving Access to Financial Services (IAFS) Committee which is comprised of members from the following organizations: Pakistan Banks' Association, Pakistan Microfinance Network, Pakistan Poverty Alleviation Fund, local education sector, SBP and ADB (observer). The program is underway in conjunction with a variety of measures such as encouraging mobile phone-based banking services, innovative products and credit scoring systems for small enterprises and flexible regulatory regime for MFBs.

The program will initially impart basic financial literacy to poor and marginalized people of Pakistan. The NFLP pilot will impart financial education and awareness on six personal finance themes that include budgeting, savings, investments, debt management, financial products, branchless banking and consumer rights & responsibilities. In addition to focused training sessions of beneficiaries, the dissemination strategy involves street theatres, board games, comic strips, activity-based competitions, and website and media campaigns to reach out the masses on a larger scale. The

training sessions will be sourced from banks, Microfinance Banks (MFBs) and Microfinance Institutions (MFIs) based on their interest and pre-defined qualification criteria.

NFLP scope includes an intended change in attitudes and behavior by providing 2-day workshops which involve content-based activities, storytelling and exercises. Its pictorial handbooks are geared to the learning capacity and situations of its target audience, many of whom may be functionally illiterate. The workshops are to be supplemented by public service messages relayed on terrestrial and regionally popular television and radio channels. The State Bank of Pakistan has also defined a comprehensive strategy in Branchless Banking Regulations 2008 upon which banks and cellular phone operators are working rightly to reach the marginalised or poor segment of the society.

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