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# Project Report

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**Lack of Financial Literacy**

**In Low Income Areas**

**Domain: Financial Sector**

**Targeted Niche: Lower / Middle Class**

**Introduction**

The main objective of this project is to identify the problems faced due to lack of financial literacy in low income areas and to provide a solution using the knowledge of information and communication technology.

Roughly 33 percent of adults worldwide are financially literate whereas the remaining population face hardships due to their insufficient knowledge of financial literacy.

**Causes of lack of financial literacy:**

* Lack of practical financial education
* Lack of resources to provide basic financial knowledge
* Lack of awareness regarding this problem.

**PROBLEMS FACED DUE TO LACK OF FINANCIAL LITERACY:**

**Lack of Budgeting Skills:**

The person without prior knowledge of financial literacy wouldn’t know how to create and maintain a budget so he would not be able to track his income and expense ratio resulting in further problems for him.

**Debt Management:**

The person with no financial knowledge would not have any strategy for managing and repaying his debts leading to foreclosure of his property. Also, he would not be able to repay his student loans and face repercussions.

**Lack of Awareness of Financial Products:**

Due to insufficient financial knowledge, people remain unaware of the financial products that could assist them e.g. savings accounts, mortgages and insurances and the terms, conditions and costs and thus wouldn’t be able to avail them.

**Understanding of Credit/ Debit cards:**

Understanding of credit and debit card and the difference between the two is crucial to avoid the accumulation of debt and to record all the transactions efficiently.

**Lack of knowledge regarding Inflation and Taxes:**

The absence of financial literacy reduces long term financial goals as almost 57% of people do not account for inflation in their financial planning and 45% taxpayers in the world do not understand tax implications causing increased financial stress in addition to inadequate emergency funds.

**Investment Scams:**

People with lack of financial literacy become prone to common investment scams such as Ponzi Schemes, Pyramid Schemes, Boiler Room scams, Cryptocurrency scams. Resultantly, they lose trust in financial institutions (Source: Gallup). Roughly 75% scams go unreported and more than 40% of seniors are targets of investment scams.

**High interest debts:**

High interest debts cause decreased financial flexibility and freedom, financial stress and anxiety. There is an impact on long term financial goals. Some high interest debts include credit card debt, payday loans, high interest mortgages and refinancing etc. 12 million people use payday loans. 25% of mortgages have high interest rates. 60% students graduate with high interest student loans.

**Lack of financial education resources in workplaces:**

There is limited financial literacy training and no employee financial assistance programs which causes decreased employee well-being and job satisfaction. Employees have decreased retirement savings and preparedness. 40% employees lack basic financial knowledge. 60% employees experience financial stress.

**Repercussions if problem remains unsolved:**

* Poor credit
* Bankruptcy
* Foreclosure of property

**Application of ICT to solve the problems:**

Applications of ICT can be applied to reduce the problems caused due to lack of financial literacy.

An application or a website can be made in order to raise awareness regarding this matter,

Furthermore, that app can be programmed to help the users regarding budgeting i.e. making a personalized budget tracker for it.

Similarly, we can add a system in that app to detect financial scams.

Also, that app can provide a platform which allows money lender and borrower to interact with each other and after agreeing on the conditions feasible for both the parties, they can make a deal accordingly.

**SCOPE FOR PHASE 2:**

We will make an application that specifically tracks the user’s personal budget and also add a function in that application to enable the users to understand the importance of financial literacy and give them basic knowledge regarding it.