Indian Economy · GS - III

Assess the potential of child-oriented investment accounts in promoting long-term financial inclusion and wealth creation. What safeguards are necessary to protect young investors?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 27/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Financial inclusion, financial literacy, capital markets, compounding, child savings, market volatility, investor protection, intergenerational equity

Model Answer

Child-oriented investment accounts seek to build financial assets from an early age through contributions invested over a long period. Such initiatives can encourage a culture of savings and introduce families to formal financial markets.

Potential developmental benefits

1. **Long-term wealth creation:** Early investment allows accumulated returns to benefit from compounding, potentially creating a financial foundation for education, entrepreneurship or other future needs.
2. **Financial inclusion:** Dedicated accounts can introduce children and their families to formal savings and investment instruments.
3. **Capital formation:** Long-term household investments can deepen capital markets and provide funds for productive economic activities.
4. **Financial literacy:** Age-appropriate education can help children understand savings, risk, diversification and responsible financial decision-making.

Risks requiring attention

1. **Market volatility:** Equity investments can lose value, particularly during economic downturns.
2. **Unequal access:** Families with greater financial resources may benefit more from voluntary contributions, widening wealth disparities.
3. **Governance concerns:** Accounts managed by guardians require safeguards against misuse and conflicts of interest.
4. **Concentration risk:** Excessive dependence on a single company or asset can expose children's savings to significant losses.

Institutional safeguards

Governments should ensure transparent investment rules, diversified portfolios, regulated custodianship, clear withdrawal conditions and periodic disclosures. Financial education should accompany account ownership, while special provisions may be needed for children from economically weaker households.

The effectiveness of such schemes should be measured not merely by the value of assets accumulated but also by accessibility, risk management and equitable participation.

Thus, child-oriented investment accounts can support intergenerational financial security when long-term investment opportunities are combined with strong investor protection.

BECOME IAS
AI POWERED UPSC PREP