

FINANCIAL LITERACY – THE PATH FOR FINANCIAL INCLUSION IN RURAL INDIA

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Abstract

Indian economy is considered as one of the fastest growing economy in the world. Then even it is not free from the biggest challenge of the world i.e. poverty. To defeat this challenge financial literacy and financial inclusion have become prerequisite for the country. Availability of a number of financial services in the financial market makes consumers confused. In such circumstances, the concept of financial literacy becomes very useful tool. It makes the consumers to understand various financial plans and select the plan according to their budgets. Financial literacy includes managing financial plans, investment, savings, life insurances, household budgets, remittances, usage of various kinds of banking services etc. Thus, it's a very vast concept. Financial literacy doesn't mean having knowledge about financial plans only but it also means to utilize this knowledge in a smart way. Without financial literacy the goal of financial inclusion can't be achieved. Financial inclusion means to include financially excluded people. Financial literacy and financial inclusion are considered as two sides of the one coin. In this paper an attempt is done to understand the significance of financial literacy for financial inclusion in rural India, Various efforts made by the government of India and the RBI to increase financial literacy and financial inclusion and to find out various hurdles to financial inclusion.

Keywords: Financial Literacy, Inclusion, Rural, Services

INTRODUCTION

Indian economy is considered as one of the fastest growing economy in the world. Then even it is not free from the biggest challenge of the world i.e. poverty. To eradicate poverty has become the biggest challenge in front of the world, as fruits of growth and development have been distributed unevenly, especially in rural areas. To defeat this challenge, financial literacy and financial inclusion have become prerequisite for the country. In rural areas, the proportion of financial illiterate population is very high. So they are not able to get benefits of banking services due to one or another reason. To include such people financially and increase financial inclusion in rural India, financial literacy has become the significant path. To promote financial inclusion, a large number of financial services are provided by various financial markets. But due to financial illiteracy such services make consumers confused. In such circumstances, the concept of financial literacy becomes very useful tool. It makes the consumers to understand various financial plans and select the plan according to their budgets.

FINANCIAL LITERACY

To gain knowledge about savings, payments, remittances, credits, insurances, banking services etc. is known as financial literacy. Financial literacy means to know the power of money. Financial literacy increases skills and knowledge for the usage of selected and best products and services among people. Knowledge about financial literacy makes a person to know about importance of cash flow management, savings, credits, banking services, financial planning, house hold budgets etc. Financial literacy includes financially excluded population. So, financial literacy is considered as the significant path to increase financial inclusion.

FINANCIAL INCLUSION

Rangrajan Committee on Financial Inclusion (2008) has defined financial inclusion as the process of ensuring access to appropriate financial products and services needed by the vulnerable groups such as weaker sections and low income groups at an affordable cost in a fair and transparent manner by the mainstream institutional players. Financial inclusion recommends to expand access to financial products and services like credits, savings, loans, remittances, insurances, bank accounts etc. for the poor. For an inclusive growth and development, financial inclusion becomes a significant tool.

Financial literacy campaigns spread awareness among people and make them financially included. For the poor, some psychological factors play main role to accept the financial system that lead them financially

excluded. Financial inclusion doesn't mean just to open a bank account, but it's much more than it. Financial literacy enhances our knowledge about various financial services that are available in the money market to achieve our various goals.

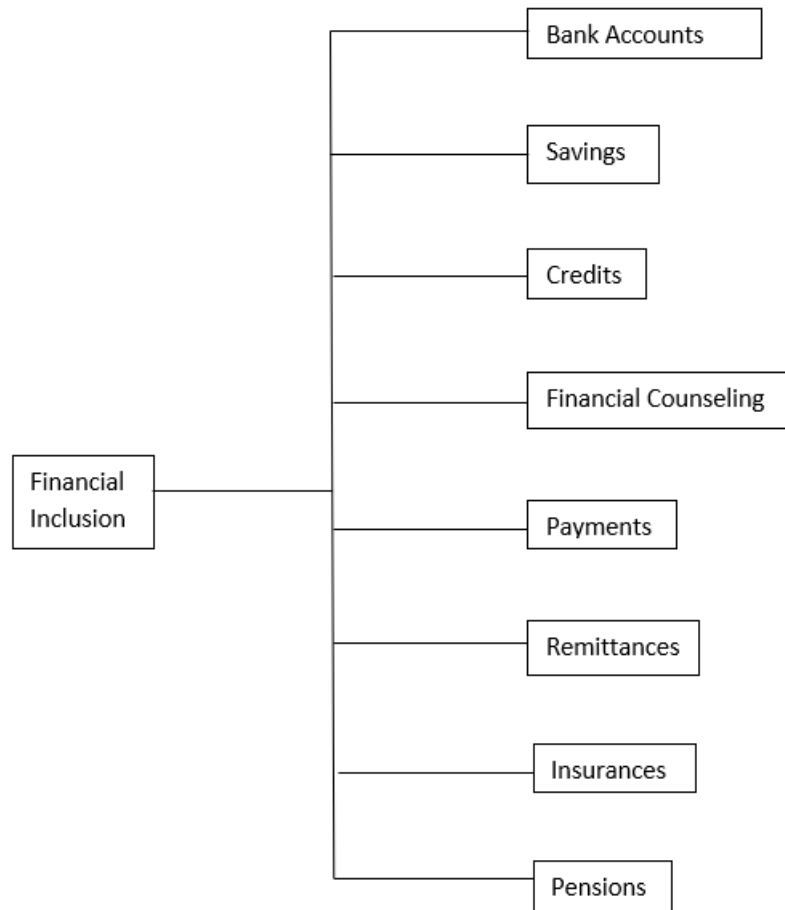


Figure 1: Source: Rangarajan Committee Report

LITERATURE REVIEW

- Leyshon and Thrift (1995) studied about financial exclusion and came to know that financial exclusion is the process in which group of people are not having access to the formal financial system. They also analyzed such groups of excluded people and reasons for remaining financially excluded.
- Bernheim (1995, 1998) in his research paper analyzed that due to lack of financial literacy and knowledge people remain financially excluded. The author was one of the first researchers who analyzed so.
- Sinclair (2001) in his research paper found that financial exclusion refers inability of financial institutions to provide financial services in a proper manner. Financial inclusion includes various services and products provided by the formal financial institutions such as savings, insurances, remittances, credits, payment facilities etc.
- According to Planning Commission (2009), financial inclusion means access of financial services and products at affordable cost. These financial services are not limited upto banking services.
- Jariwala (2013) in her study stated that in Gujarat, the state of India, financial literacy rate is very low. She defines financial literacy as having sound knowledge about financial products to make good financial decisions.
- Mundra (2015) in his study stated that in India financial literacy is low. The Deputy Governor of RBI has categorized financial illiterates into four categories.

OBJECTIVES

- To spread awareness among population about financial literacy programs.
- To know the significant impact of financial literacy for financial inclusion.
- To know the importance of financial literacy programs for financial inclusion.
- To know about various determinants of financial literacy.
- To know various efforts made by the government of India and the RBI.
- To find out various hurdles to financial inclusion.

METHODOLOGY

The present paper is based on secondary data available from various sources such as government reports, RBI Bulletins, different websites, magazines, news papers, published research papers, various reports published by financial institutions etc. So, as per need various statistical tools have been used.

SIGNIFICANCE OF FINANCIAL LITERACY AND FINANCIAL INCLUSION

Financially educated person can take their own financial decisions. Financial literacy generates opportunities to be financially independent. Financial literacy enables the person to utilize financial products and services according to his needs and achieve targets. The major psychological problems like gender discrimination and the status of lifestyle can also be improved in rural areas with the help of financial literacy. That's why financial literacy is also known as the path for financial inclusion. Without financial literacy, the goal of financial inclusion seems as an illusion. The vicious circle of poverty can also be eradicated through financial literacy and financial inclusion.

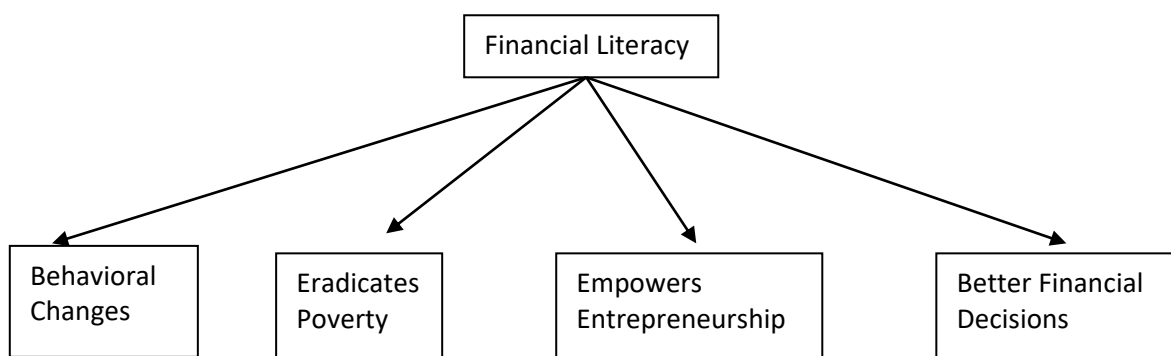


Figure 2: Impact of Financial Literacy

As shown in the above fig. 2, financial literacy affects on many factors. It brings changes in the behaviour of a person and enables him to take better financial decisions. Financial literacy helps to empower entrepreneurship and leads to eradicate poverty, as the status of life of a person improves. He enjoys better life and fulfill his requirements in easy, safe and comfortable way. Due to financial literacy campaigns, population become aware and penetrations of people in financial markets increase. Thus, the flow of financial inclusion increases.

ADVANTAGES OF FINANCIAL LITERACY

Through financial literacy programs, a large masses become aware for financial services provided by banks and other financial institutions. Advantages avail for population are as under:

- People, mainly rural people, will get easy access to banking services.
- Safe and secure economic transactions.
- Increase in saving habit makes bright future of a person and the nation.

FINANCIAL LITERACY AND FINANCIAL INCLUSION - THE RELATIONSHIP

Financial literacy and financial inclusion are considered as two sides of one coin, financial literacy represents demand side by providing knowledge about financial products and services and financial inclusion represents the supply side by providing financial markets.

Financial inclusion focused to provide access financial services to the weaker sections and low income groups of the society at an affordable cost. People being financial literate can get benefits of financial products and services and thus boost the economy.

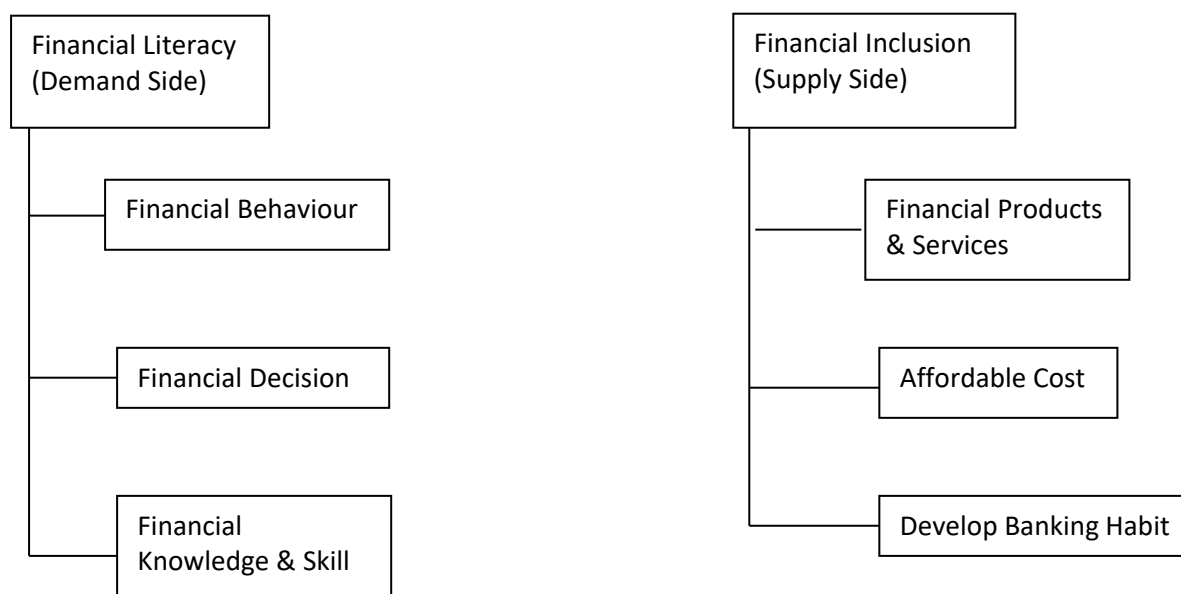


Figure 3: Two sides of the coin (Financial Literacy and Financial Inclusion)

FACTORS AFFECTING FINANCIAL LITERACY

Following are some factors which affects financial literacy.

Age:

Among the youths, financial literacy ranges from moderate to high levels. As the age increases, financial literacy decreases, which denotes that the person has to update himself and be a broad minded.

Gender:

In India, still gender discrimination persists. So, female is not able to take any financial decisions yet. Being financial illiterate, they have to depend upon male for any kind of financial matter.

Education:

Education directly affects financial literacy. Educated population remains aware with current affairs. So, it becomes easy for them to be financially included.

Region:

Geographical region has high impact on financial literacy. In backward regions, most of the population remain financial illiterate and could not fulfill their requirements and hence live in very bad conditions.

STATUS OF FINANCIAL INCLUSION IN INDIA

Even after a well regulated financial system, the proportion of financial inclusion in India remains very low, especially in rural India.

As shown in the below table-1 and fig. 4, in rural areas the number of branches of SCBs were increased more rapidly as compared with any other areas in India.

Table 1: Population Group Wise No. of Branches of SCBs in India

Year	Rural	Semi-Urban	Urban	Metropolitan	Total
2011	33367	22725	18997	17028	92117
2012	35936	25818	20225	18826	100805
2013	39233	28529	21618	19899	109279
2014	44653	31663	23386	21263	120965

2015	48536	34131	25149	22666	130482
2016	50102	35974	25644	23138	134858
2017	48384	38101	25747	27984	140216
2018	49401	38626	25988	27894	141909

Source: Basic Statistical Returns of Scheduled Commercial Banks in India

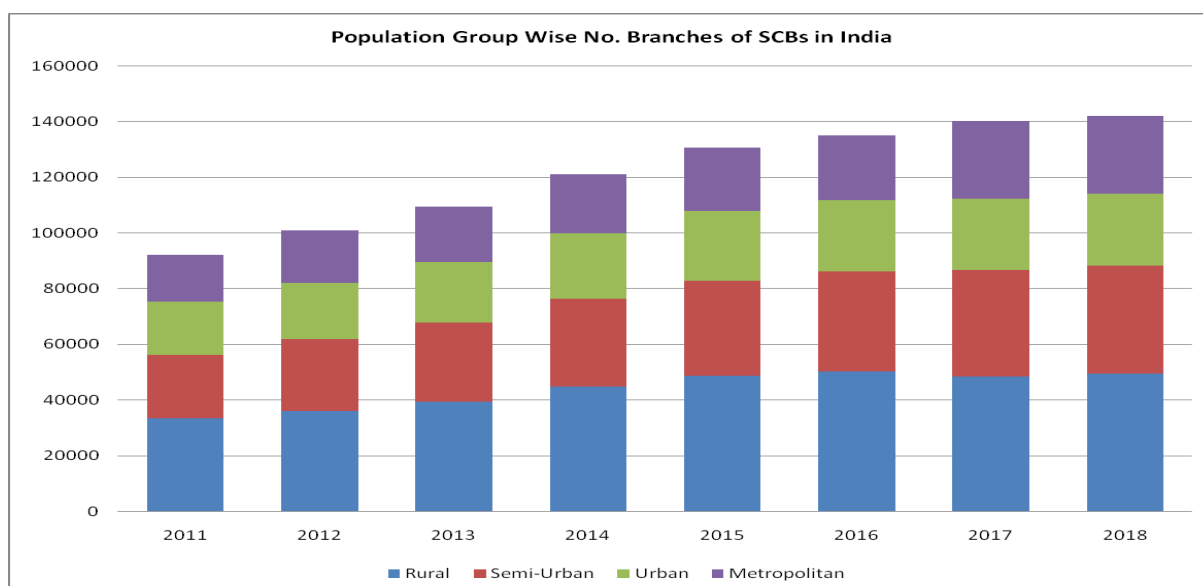


Figure 4: Population Group Wise No. of Branches of SCBs in India

Hypothesis: 1

H0: There is no association between population group wise number of branches of SCBs with respect to total number of branches of SCBs in India.

H1: There is association between population group wise number of branches of SCBs with respect to total number of branches of SCBs in India.

Table 2: ANOVA (Population Group Wise and Total Number of Branches of SCBs in India)

No. of Branches

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	55347247673.150	4	13836811918.287	152.503	.000
Within Groups	3175591394.750	35	90731182.707		
Total	58522839067.900	39			

Table 3: Post Hoc Tests (Population Group Wise and Total Number of Branches of SCBs in India)

Dependent Variable: No. of Branches

Tukey HSD

(I) Population group	(J) Population group	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Rural	Semi-Urban	11755.625	4762.646	.121	-1937.27	25448.52
	Urban	20357.250*	4762.646	.001	6664.36	34050.14
	Metropolitan	21364.250*	4762.646	.001	7671.36	35057.14
	Total	-77627.375*	4762.646	.000	-91320.27	-63934.48
Semi-Urban	Rural	-11755.625	4762.646	.121	-25448.52	1937.27
	Urban	8601.625	4762.646	.386	-5091.27	22294.52
	Metropolitan	9608.625	4762.646	.279	-4084.27	23301.52
	Total	-89383.000*	4762.646	.000	-103075.89	-75690.11
Urban	Rural	-20357.250*	4762.646	.001	-34050.14	-6664.36
	Semi-Urban	-8601.625	4762.646	.386	-22294.52	5091.27
	Metropolitan	1007.000	4762.646	1.000	-12685.89	14699.89
	Total	-97984.625*	4762.646	.000	-111677.52	-84291.73
Metropolitan	Rural	-21364.250*	4762.646	.001	-35057.14	-7671.36
	Semi-Urban	-9608.625	4762.646	.279	-23301.52	4084.27

<https://www.gapgyan.org/>

	Urban	-1007.000	4762.646	1.000	-14699.89	12685.89
	Total	-98991.625*	4762.646	.000	-112684.52	-85298.73
Total	Rural	77627.375*	4762.646	.000	63934.48	91320.27
	Semi-Urban	89383.000*	4762.646	.000	75690.11	103075.89
	Urban	97984.625*	4762.646	.000	84291.73	111677.52
	Metropolitan	98991.625*	4762.646	.000	85298.73	112684.52

*. The mean difference is significant at the 0.05 level.

Table 4: Population Group Wise No. of Branches–Analysis-India

No. of Branches

Tukey HSD

Population group	N	Subset for alpha = 0.05		
		1	2	3
Metropolitan	8	22337.25		
Urban	8	23344.25		
Semi-Urban	8	31945.88	31945.88	
Rural	8		43701.50	
Total	8			121328.88
Sig.		.279	.121	1.000

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 8.000.

As described in the above tables-2, 3 & 4, we can observe that the significance level 'α' is less than 0.05, so, here the null hypothesis is found to be rejected and the alternative hypothesis is accepted. Thus, it is interpreted that there is association between population group wise number of branches of SCBs with respect to total number of branches of SCBs in India. As shown in the post hoc analysis of population group wise number of branches of SCBs with respect to total number of branches, it is inferred that rural branches and semi urban branches do not differ in India.

Table 5: Average Population per Bank Branch of SCBs in India

Year	Total No. of Branches of SCBs in India	Average Population per Bank Branch of SCBs in India
2011	92117	13573
2012	100805	12557
2013	109279	11721
2014	120965	10711
2015	130482	10041
2016	134858	9822
2017	140216	9547
2018	141909	9532

Source: Basic Statistical Returns of Scheduled Commercial Banks in India

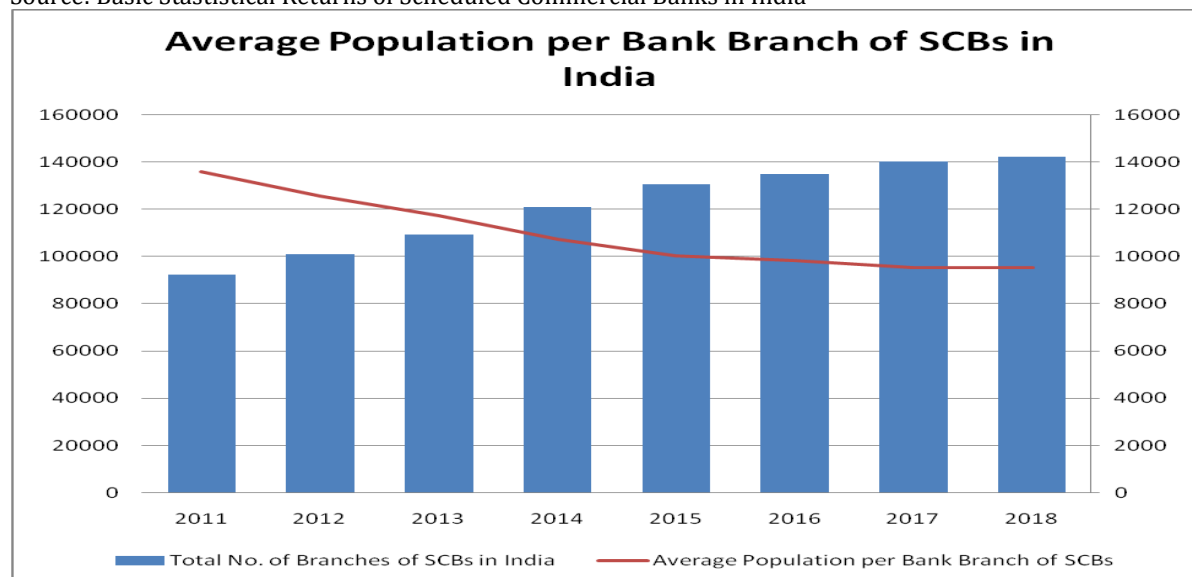


Figure 5: Average Population per Bank Branch of SCBs in India

The Above table-5 and fig.-5 mention average population per bank branch of SCBs in India for the duration of 2011 to 2018. It shows due to increase in no. of bank branches of SCBs in India, average population per bank branch of SCBs decrease gradually. It also mentions that as the population becomes financially literate, they started to use banking facilities results in expansion of no. of bank branches in India in general and in rural areas in particular.

Hypothesis: 2

H0: There is no association among average population per bank branch of SCBs and total no. of branches of SCBs in India.

H1: There is association among average population per bank branch of SCBs and total no. of branches of SCBs in India.

Table 6: Regression Model Summary- Average population per bank branch of SCBs and total no. of branches of SCBs.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991 ^a	.982	.979	2704.242

a. Predictors: (Constant), Average Population per Bank Branch

Table 7: ANOVA Table- Average population per bank branch of SCBs and total no. of branches of SCBs

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2423099369.985	1	2423099369.985	331.345	.000 ^b
	Residual	43877564.890	6	7312927.482		
	Total	2466976934.875	7			

a. Dependent Variable: Total No. of Branches of SCBs in India

b. Predictors: (Constant), Average Population per Bank Branch

Table 8: Regression Coefficients Table- Average population per bank branch of SCBs and total no. of branches of SCBs

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	255139.181	7412.969		34.418	.000
	Average Population per Bank Branch	-12.234	.672	-.991	-18.203	.000

a. Dependent Variable: Total No. of Branches of SCBs in India

As shown in above tables-6, 7 & 8, it is revealed that the significance level 'α' is less than 0.05. Therefore, null hypothesis is found to be rejected and hence alternative hypothesis is accepted. Thus, it is interpreted that there is association among average population per bank branch of SCBs and total no. of branches of SCBs in India.

CONCLUSION

Reserve Bank of India, as well as the government of India is planning various initiatives to overcome hurdles to increase financial inclusion and spread awareness about financial literacy. Several branches of various banks have been opened in rural areas also. The concept of e-banking and mobile banking is becoming popular now a day in rural areas. The usage of ATMs has been increasing for various purposes. Financially excluded people have been converted into financially included. Usage of Aadhar Card has reduced several problems of people related with documents. Financial services are provided by BCs and BFIs directly, so many people can have access to its benefits. Many camps have been organized by RBI to increase financial literacy among people. Even after these much efforts, there are several people who are not financially included in rural areas of India. The main target of the government of India and the RBI is to include a vast segment of such financially excluded people.

SUGGESTIONS

In rural areas, many people prefer private money lenders to fulfill their financial needs. They feel it's easier to take loan from such money lenders than from bank. They face various problems while they are applying for loan from the bank. So, to include such people financially, the government, as well as the RBI should focus on

them and try to give them much importance to open their bank accounts and to take loan from banks and utilize financial services provided by banks. Following are some suggestions to increase financial inclusion.

1. There should be a bank branch in rural area or nearby rural area.
2. This rural branch should extend its services to local population, as well as the nearest area's population.
3. Employees of the bank should treat people in well manners.
4. Banks should also provide small loans to the poor as per their requirements.
5. Programs related to financial literacy can aid the knowledge of poor people for financial decisions. So, such programs should be arranged.

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