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A STUDY ON FINANCIAL INCLUSION AND FINANCIAL LITERACY

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Abstract
India as a country presents great diversity in its geography, history, and culture and population demography. This diversity makes it extremely difficult to suitably categorize the country on economic, political, religious or demographical grounds. Post-independence growth has led to overall development of the country as a whole but it has also divided it into two distinct segments thus providing a suitable basis of categorization in the form of Rural India and Urban India. As per the census of 2001 only 27.78% population of the country lives in the urban segment while the rest are still residing in the inherently characteristic Rural India. The things however have changed significantly since independence when around 82% of the population lived in the rural segment. The rural segment is distinct in respect of various features such as purchasing power, development, social system etc. These distinctions relate directly to the kind of distinct demand patterns that the rural sector has in various product segments especially when it comes to financial services. The sector presents a real challenge given its technological backwardness and mass illiteracy as people are still caught in ancient financial systems that were both exploitative and futile.

Key Words: Financial inclusion, financial exclusion, financial Literacy.

Introduction

Financial inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations

Statement of the Problem

Financial inclusion is the biggest problem in front of the financial system today in rural India and infrastructural bottlenecks are worsening it even further with each passing day. Hence the researcher intents to conduct a study of the extent to which the people having different demographic profile residing in a rural area are conversant with banking habits and the study is titled as "**A STUDY ON FINANCIAL INCLUSION AND FINANCIAL LITERACY**".

Significance of the Study

The study on financial inclusion and financial literacy among people is a great importance in the present day situations. Active participation of each and everyone in the financial system of the country is pre-requisite for the effective functioning of financial system. Financial system facilitates the needs of those who need money and those who have surplus money. Banking habit is the simplest way to enter into the financial system. Now also there are more than 30% of the Indian populations are unbanked.

Therefore the study proposes to analyse the intensity of financial inclusion and financial literacy among the people.

Objectives of the Study

The main objective of this study is to measure the intensity of financial inclusion and financial awareness among the people. Keeping this in view, the following specific objectives have been set for the study.

1) To study the banking habit among the people
2) To examine the awareness level of people about financial products and services.
3) To identify the major sources of information about financial products and services.
4) To identify the reason for opting Public sector or Private sector banking
5) To know the opinion about financial products with reference to several aspects

Scope of the Study

The study explores to the intensity of financial inclusion and financial literacy among people. The target group include unemployed/house wife, agriculturalists, Government employees, Non -Government employees and people engaged in business. Banking habits and awareness about financial products and services come within the purview of the study. The target group are people residing in Piravom Panchayat in Ernakulam District.

Methodology

The data required for study are collected from primary and secondary sources. Secondary data from published books, periodicals, journals etc. These sources are also used for to frame questionnaire required for collecting primary data. Primary data are collected from a sample of 100 respondents belonging to different occupational groups residing in **Piravom Panchayat** by administering a structured questionnaire.

Hypotheses

The following hypotheses are formulated by the researcher to arrive a scientific solution to various propositions

1. Type of bank accounts and level of income of the respondents are independent
2. Type of bank accounts and occupational status of the respondents are Independent
3. Type of bank accounts and level of education of the respondents are independent
4. Respondents are well aware of the financial products and services provided by banking institutions
5. Respondents do not weigh any particular factor in selecting a particular bank for their dealings
   Hypotheses 1 to 3 are tested with the help ofChi-square test of independence and the 4th hypothesis is tested with the help of Likert scaling technique. Weighted ranking method is used to test the fifth hypothesis

The Concept of Financial Inclusion

India occupies only 2.4 per cent of the world's land area but supports over 16 per cent of the world's population. About 70 per cent of the Indian population lives in villages. There are divergent demographic patterns, living standards, education levels and income levels as parameters of economic development. The rural India is yet to see the light of development and the results of planning process. The divide between the rich and poor is wide. On one hand, due to liberalization, privatization and globalization of Indian economy, there are sea changes in the banking field. While on the other hand, besides profit, social responsibility is also one of the prime agenda of commercial banks. The fact remains that the country cannot progress unless and until the basic infrastructure facilities reach to each and every citizen of the country. One of the important purposes of Indian planning is socialism and upliftment of poor. The downtrodden and poverty ridden mass has been excluded socially and financially even in independent India when planning and development process was basically meant for them. They should have been the beneficiaries of development.

Meaning of Financial Inclusion

Financial Inclusion is the delivery of financial services at affordable costs to vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of public policy. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

Definition

According to UNITED NATIONS, "A financial sector that provides 'access to credit for all "bankable " people and firms and to savings and payments services for everyone . Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose use them if desired.

Financial Exclusion

Financial exclusion can be defined as the inability of individuals, groups and communities to access and use appropriate and affordable personal, business and organisational financial products and services. The term financial exclusion came into prominence in the early 90's. The term financial exclusion was first coined in 1993 by geographers who were concerned about limited physical access to banking services as a result of bank branch closures Illiteracy is one of the major drivers of financial exclusion in developing countries. Financial awareness and education is prerequisite for rural people. For a healthy financial system participation of every people in financial activity is a must.Financial exclusion becomes of more concern in the community when it applies to lower income consumers and/or those in financial hardship

Financial exclusion at a glance state wise as on 2005

Sl. No.	% of Financial Exclusion	States
1	< 75 %	Meghalaya, Mizoram, Jharkhand,Uttarakhand, Arunachal Pradesh,Assam, Manipur,
2	51 - 75 %	Bihar, Orissa, Chattisgarh, Himachal Pradesh, Jammu and Kashmir, Uttar Pradesh, Nagaland, Tripura and Sikkim
3	25 – 50 %	Karnataka, Kerala, Madhya Pradesh,Maharashtra, Punjab, Tamil Nadu,West Bengal & Rajasthan
4	< 25 %	Andhra Pradesh, Delhi, Goa and Pondicherry

Consequences of Financial Exclusion

Consequences of financial exclusion will vary depending on the nature and extent of services denied. it may lead to increased travel requirement, high incidence of crime, general decline in investment, difficulties in accessing credit or getting credit from informal sources at exorbitant rates, and increased unemployment, etc. The small business may suffer due to loss of access to middle class and higher income consumers, higher cash handling cost, delay in remittances of money. According to certain researches, financial exclusion may lead to social exclusion.

Financial inclusion in India

The Reserve Bank of India has set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks

Analysis of Data

Table No: 1 Respondents having Bank account

Bank Account	No: of respondents	Percentage
Having bank a/c	97	97%
Not having bank a/c	3	3%
Total	100	100

Source: Primary data

The table shows that out of 100 respondents, 97 respondents have bank account. And only 3 respondents do not have bank account.

Table No: 2 Reason for investing in banks

Reasons	No: of respondents	Percentage
Location	28	15%
Credit facility	22	12%
ATM facility	43	23%
Image of the Bank	10	5%
Prompt service	18	10%
Interest Rate	24	13%
Security	40	22%
Total	**185**	**100**

Source: Primary data

Note: One respondent have more than one reason in investing in Bank

Majority of the respondents are of the opinion that Bank ATM facility (43 respondents) and security (40 respondents) are the main reason for depositing in the Bank. 15% respondents and 13% respondents prefer Location and Interest rates respectively as the reason for investing in Bank. Credit facility and Prompt services also attracted 12% and 10% respondents respectively. Image of the Bank is the least preferred by the respondents.

Table No: 3 Type of Bank Accounts Preferred by the Respondents

Bank account	No.of respondents	Percentage
Savings Bank account	55	43%
Time Deposit	31	24%
Recurring Deposit	43	33%
Others	0	0%
Total	129	100

Source: Primary data

Note: One respondent can have more than one type of bank account at a time

It is clear from the table that majority of the respondents (43%) prefer Savings Bank Account because of easy convenience. Followed by 33% of the respondents prefer Recurring Deposits. 24% of the respondents like to invest their funds in Time deposit. And none of the respondents prefer other kinds of deposit schemes.

Table No: 4 Avenues of savings other than banks of the respondents

Avenues	No of respondents	Percentage
Post office savings	34	18%
Chits funds	38	20%
Mutual funds	9	5%
Life insurance	107	57%
Total	188	100

Source: Primary data

Note: One respondent have more than one avenues of saving other than banks at a time

From the table it is clear that majority of the respondents prefer Life insurance as an avenue of savings other than banks. 57% respondents prefer Life insurance as an investment. Chit funds (20%) and Post office saving (18%) also preferred by the respondents as savings other than banks. Only 5% of the respondents prefer Mutual funds as avenues of savings.

Table No: 5 Financial Products and Services Awareness among Respondents

Options	Frequency	Percentage
Very high	6	6%
High	10	10%
Average	77	77%
Low	7	7%
Very low	0	0%
Total	100	100

Source: Primary data

It is evident from Table 3.16 that all the respondents are aware of the financial products and services offered through the banking system. Only 7 percent of the respondents have below average level of awareness.

Table 6 Sources of Information about Financial Products and Services

Sources	No: of respondents
Newspaper	37
Television	19
Journals	11
Friends & relatives	33
Radio	0
Total	100

Source: Primary data

The table shows that news paper and friends & relatives are the major source of information about financial products and services. Television and journals also provide information about financial products and services to a certain extent. None of the respondents opined about radio as a source of information about financial products and services.

Testing of hypotheses

Hypothesis 1: Type of Bank Account and Level of Income

Ho: Type of Bank Account and Level of Income are independent

Table No: 7 Type of Bank Account and Level of Income of Respondents

Type of bank account	Level of income					
	Below 10000	10000-15000	15000 - 20000	20000-25000	Above 25000	Total
Savings Bank A/C	20	14	10	6	5	55
Time Deposit	5	6	8	7	5	31
Recurring Deposit	12	13	7	5	6	43
Total	37	33	25	18	16	129

Source: Primary data

Chi –Square test

Level of significance = 5%

Degree of freedom = 8

Calculated Value of Chi-Square =24.04

Table value at 5% significance level = 13.36

Since the calculated value of Chi-Square is more than table value, the Ho is rejected

Hypothesis 2: Type of Bank Account and Level of education

Ho: Type of Bank Account and Level of Education are independent

Table No: 8 Type of Bank Account and Level of Education of Respondents

Type of bank account	Level of Education					
	SSLC	PDC/Plus Two	Graduation	Post graduation	Others	Total
Savings Bank A/C	14	16	11	5	9	55
Time Deposit	5	6	8	7	5	31
Recurring Deposit	10	15	7	5	6	43
Total	29	37	26	17	20	129

Source: Primary data

Chi - square test

Level of significance = 5%
Degree of freedom = 8
Calculated Value of Chi-Square =10.39
Table value at 5% significance level = 13.36
Since the table value of Chi-Square is more than calculated value, the Ho is accepted

Hypothesis 3: Type of Bank Account and Occupational Status

Ho: Type of Bank Account and Occupational Status are independent

Table No: 9, Type of Bank Account and Occupational Status of Respondents

Type of bank account	Occupational status					
	Government	Private	Pensioners	Agriculture	Others	Total
Savings Bank A/C	19	13	5	12	6	55
Time Deposit	5	8	7	5	6	31
Recurring Deposit	14	9	5	10	5	43
Total	38	30	17	27	17	129

Source: Primary data

Chi - square test

Level of significance = 5%
Degree of freedom = 8
Calculated Value of Chi-Square =17.14
Table value at 5% significance level = 13
Since the calculated value of Chi-Square is more than table value, the Ho is rejected

Hypothesis 4: Awareness Level of Respondents

Ho: Respondents are well aware of the financial products and services

This hypothesis is tested with the help of Likert rating scale. Respondents were asked to rate their awareness level on a 5 point rating scale ranging from very high level of awareness to very low level of awareness. Weights are given in the order of 5,4,3,2 and 1 to various responses from very high to very low. Frequencies are multiplied with the respective weights to get the weighted average score .The summated weighted average score is divided by the total frequency to get the mean score. The mean score is compared with the expected mean value to arrive at a decision regarding the degree of the awareness level.

Table No: 10, Financial Products and Services Awareness among Respondents

Options	weight	Frequency	Weighted Score
Very high	5	6	30
High	4	10	40
Average	3	77	231
Low	2	7	14
Very low	1	0	0
Total	15	100	315

Source: Primary data

Weighted mean score =3.15,Expected mean value =3.0

Since the calculated mean score (3.15) is higher than the expected mean score (3.00), the null hypothesis is accepted .This means that the respondents have above average awareness level about the financial products and services offered through the banking system

Summary of Findings

1. Out of 100 respondents 97 respondents have bank account. And only 3 respondents have not bank account
2. Majority of the respondents are of the opinion that Bank ATM facility (43 respondents) and security (40 respondents) are the main reason for depositing in the Bank. 15% respondents and 13% respondents prefer Location and Interest rates respectively as the reason for investing in Bank. Credit facility and Prompt services also attracted 12% and 10% respondents respectively. Image of the Bank is the least preferred by the respondents.
3. Majority (79%) of the respondents prefer Public Sector Banks. 28 % of them prefer 'Private Sector Banks'. And only 8% of them prefer Other Banks like Co-operative Banks. Some of the respondents prefer both private and private sector banks.
4. Easiness of access, Large No: of schemes and Performance record are the most preferred factors that attracted customers towards banks. Though Large No: of scheme is the main factor which the respondents give first preference, more number of respondents prefers Easiness of access as the main factor in selecting bank
5. Through the analysis the majority of the respondents (43 %) prefer Savings Bank Account because of easy convenience. Followed by 33% of the respondents prefer Recurring Deposits. 24% of the respondents like to invest their funds in Time deposit. And none of the respondents prefer other kinds of deposit schemes.
6. From the analysis it is found that majority of the respondents prefer Life insurance as an avenue of savings other than banks. 57% respondents prefer Life insurance as an investment. Chit funds (20%) and Post office saving (18%) also preferred by the respondents as savings other than banks. Only 5% of the respondents prefer Mutual funds as avenues of savings.
7. The analysis found that news paper and friends & relatives are the major source of information about financial products and services. Television and journals also provide information about financial products and services to a certain extent. None of the respondents opined about radio as A Source of Information about Financial Products and Services.

Conclusion

A great change has happened in the last ten years to overcome financial exclusion. A framework of policy has emerged from an inclusive process of discussion and debate. Initiatives and experimental services have been launched to put the policies into effect. we cannot become complacent and become victims of our own success. Not only should people have access to basic financial services but should also actively use them. But there still a lot more to do: stimulating use of financial services as well as access; ensuring long-term sustainability of current initiatives and tackling new forms of exclusion and marginalization as they arise.

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