



Financial Literacy an Essential Prerequisite for Financial Inclusion

Pratima Trivedi 2/82, Vijay Khand , Gomti Nagar , Lucknow. 226010

Saumya Trivedi 2/82, Vijay Khand , Gomti Nagar , Lucknow. 226010

ABSTRACT

Financial system in a country is the backbone of economy. But it can bear its fruits only when properly utilized by the population. In a country like India where there is high number illiterates , uneducated people financial literacy is the utmost requirement for any financial product to be successful. This research paper tries to find out level of financial literacy in our country and steps initiated for making population financially literate. In the paper definition of financial literacy is considered on the basis of the definition of OECD(organization for economic cooperation and development) an International organization for economic progress and world trade. On the basis of the definition financial literacy is judged by the level of financial knowledge , financial behavior and financial attitude of the population. Research methodology followed is survey through questionnaire. Sampling used is convenient sampling from rural as well as urban area. Care has been taken to cover people from different gender, income group, age group etc. But limitation of the study is that it could cover data from Barabanki ,Mohanlalganj and Lucknow districts only. Study has tried to find out status of financial literacy at different strata and the steps initiated by different organization towards financial literacy and suggestions/ conclusions.

KEYWORDS: Financial literacy, financial inclusion, financial knowledge, financial attitude

Financial literacy is an understanding of the most basic economic concepts needed to make saving, borrowing and investment decisions and the perception that ordinary investors should have regarding market rules, financial products, financial organizations and regulations. Financial illiteracy or low of financial literacy leads to lack of healthy financial ways of decision making, lack of necessary financial knowledge and in turn poor financial performance. Financially illiterate individual either voluntarily do financial exclusion or will get the financial information from unreliable sources, which may result into the poor financial outcomes.

An efficient financial market depends upon its participants making rationale and prudent decisions. Financial literacy is an effective tool for financial inclusion as both go together. When people are aware about financial products and market they will be inclined towards them and this in turn will increase financial inclusion

Financial Literacy defined

The OECD (organization for economic cooperation and development), an International organization for economic growth and world trade, Paris, defines financial literacy as –“A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well being.” As per study conducted by OECD and Visa international financial literacy barometer 2012 India's standard financial literacy is much below International standard.

Primarily three factors are considered under financial literacy: financial knowledge, financial behavior and financial attitude. A balanced combination of all the three will lead to financial literacy and in turn to financial inclusion.

Aim of the Research Paper:

This research paper aims at studying the status and analyzing the role of financial literacy in India to empower consumer's understanding of financial market. Paper emphasizes over different initiatives taken by several financial institutions to strengthen consumers.

Research Methodology:

Research Methodology for primary data was structured data collection by survey method using questionnaire. Sampling method used was convenient sampling which comprised of 400 persons from Lucknow, Barabanki and Mohanlalganj Districts. It was ensured that sample incorporates population from different demographic factors like age, income, geographical factors, social factors and educational factors. Questionnaire consisted of questions to know about respondent's knowledge regarding financial products, their behavior in saving, borrowing and remittances and their attitude and awareness about risk in various financial activities. Secondary data was used to know various steps initiated in financial literacy in India by various Institutions. Both

quantitative as well as qualitative approaches were used for analysis.

Financial Inclusion in India

Financial inclusion means providing basic banking facility to most of population. People who are not having a bank account or do not have access to credit can be termed as financially excluded. According to RBI data 59 per cent of adult population in urban area has at least one bank account that means 41 per cent population in urban area does not have an account. Whereas only 40 per cent people in rural areas have at least one bank account that means 60 per cent people in rural do not have even a bank account. When it comes to loan account that is credit facility availed only 14 per cent have accessed to credit in urban areas while 9.5 per cent people in rural areas have accessed credit facility. People who are financially excluded are mostly poor and financially illiterate.

Status of Financial Literacy in India:

As per literature review it is seen that in India status of financial literacy is not satisfactory, especially in rural areas. People are not aware of financial services offered. In rural area people keep their saving in their homes which fetches them no interest and is risky also on account of theft. They borrow from local money lenders who charge very high interest rates. Traditional methods are more popular in rural area. Following steps are initiated in India for increasing financial literacy.

1. Financial Literacy steps initiated by RBI

Reserve bank of India (RBI) under its Financial Initiative programmes has undertaken a project titled 'project financial literacy' the objective of this project is to provide information about RBI and general banking concept to its target people especially villagers, women, students of schools & colleges, senior citizen, defense people etc. Several RBI offices located across the country are actively engaged in financial literacy programme through information display in English, Hindi and regional language etc. These informative projects disseminate information regarding RBI, basic banking, microfinance and benefits of availing services of SHG, risk capacity analysis etc. RBI officials also take road shows, skits, games, comic books etc for increasing awareness.

2. Initiatives taken by SEBI for Empowering Investors

SEBI is very active regulatory body in terms of financial literacy. SEBI is running a campaign called securities market awareness campaign (SMAC) under motto "an educated investor is a protected investor". Under this campaign SEBI conducts various work shops across the country, till date it has organized more than 2188 workshop in more than 500 cities. To undertake financial education to various target segments viz. school students, college students, working executives, middle income group, home makers, retired personnel, self help groups etc., SEBI has empanelled Resource Persons throughout India. These Persons are trained on various aspects of finance and equipped with the knowledge about the financial markets. These persons organize workshops to these target

segments on various aspects viz. savings, investment, financial planning, banking, insurance, retirement planning etc.

SEBI has a dedicated website for investor education wherein study materials in English and vernacular language are available. Under 'Visit SEBI' programme, School and college students are encouraged to visit SEBI and understand its functioning. Recently SEBI Helpline has been set up in 14 languages wherein through a toll free number, investors across the country can access and seek information on various issues.

3. IRDA'S Initiatives on Financial Education

Insurance Regulatory and Development Authority has taken various initiatives in the area of financial literacy. Awareness programmes have been conducted on television and radio and simple messages about the rights and duties of policyholders, channels available for dispute redressal etc have been disseminated through television and radio as well as the print media through sustained campaigns in English, Hindi and 11 other Indian languages. IRDA conducts an annual seminar on policy holder protection and welfare and also partially sponsors seminars on insurance by consumer bodies. IRDA has also brought out publications of 'Policyholder Handbooks' as well as a comic book series on insurance.

4. PFRDA's Initiatives on Financial Education

The Pension Fund Regulatory and Development Authority, India's youngest regulator has been engaged in spreading social security messages to the public. It has developed FAQ on pension related topics on its web and has been associated with various non government organizations in India in taking the pension services to the disadvantaged community.

5. Commercial Banks Initiatives on Financial Education

In view of the national emphasis on electronic benefit transfer the commercial banks have initiated various measures for creating awareness through Financial Literacy and Counseling Centers and Rural Self Employment Training Institutes on financial literacy. The objective of these centers is to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counseling people who are struggling to meet their repayment obligations and help them resolve their problems of indebtedness, helping in rehabilitation of borrowers in distress etc. Some of these credit counseling centers even train farmers/women groups to enable them to start their own income generating activities to earn a reasonable livelihood. Even top management of commercial banks is undertaking Outreach visits to villages with a view to spread financial literacy.

Similarly, many Stock Exchanges, Broking Houses and Mutual Funds have initiatives in the field of financial education like conducting seminars, issuance of do's and don'ts, and newspaper campaigns. Insurance companies too, carry out campaigns and other educational activities for generic education in insurance.

Sample characteristics used in the Research Paper

Respondent category	Urban male	Urban female	Rural male	Rural female
Sample size	100	100	100	100
Education level	52% have education of graduation or above, 20% have passed intermediate, 20% are matriculates, the remaining are educated only up to primary or lower	47% have education of graduation or above, 30% have passed intermediate, 23% are matriculates, the remaining are educated only up to primary or lower	5% have education of graduation or above, 50% have passed intermedietate, 30% are matriculates, the remaining are educated only up to primary or lower	None had graduation or above degree. 10% have passed intermedietate, 15% are matriculates, the remaining are educated only up to primary or lower or not at all educated.
Work experience	50 % have more than 5 years , 20 % more than two years ,rest either experience of few months or no work experience or retired from job	30 % have more than 5 years, 20 % more than a two years ,rest either experience of few months or no work experience or retired from job	40 % have more than 5 years , 30 % more than two years ,rest either experience of few months or no work experience or retired from job	No work experience.

Age	Between 20 to 65 years	Between 22 to 63 years	Between 20 to 64 years	Between 18 to 61 years
Marital status	58 % married	67% married	70% married	75% married
Income (Rs pm)	20% had more than 40000/ 60% had more than 20000/ but less than 40000/	25% had more than 30000/ 60% had more than 10000/	20% had more than 20000/ 60% had more than 20000/	No income of their own but mostly family income of 20000 to 30000

The said sample was judged on mainly three criteria through questionnaire.

1) Financial Knowledge

First item judged in financial literacy is financial knowledge. It measures knowledge of financial products, how to access them, difference in variants offered, interest calculations, understanding about risk and return, time value of money, portfolio investment etc

Variations were found as below

Gender	Domicile	Income	Education	Marital status
Males were more aware of various financial than females.	Employees in urban areas performed better than in rural areas.	Respondents in higher income group were more aware than the respondents in lower income group.	Respondents who were better qualified had better financial knowledge. Even in the same education level males performed better	Marital status seemed to have no effect on financial knowledge.

2) Financial Behavior

Next item judged in financial literacy was financial behavior. It was judged on the basis of their saving habits, borrowing habits, remittance habits and responsibility towards payment of dues / bills.

As per the data obtained it is observed that employed persons and educated persons had more responsible behavior towards payment of dues/ bills. Overall all had good financial discipline. Financial behavior does not vary with marital status, income and gender.

Majority of rural females preferred to save at home as they were scared to go to bank. They found the procedure of bank accounts cumbersome. Among rural population, 70% had bank accounts and 20% deposited money with local banks. At least 60% of rural population was aware of business correspondents and business facilitators.

In urban area 90% males and 85% females had accounts in the bank. They preferred to keep money in banks instead of home. As far as borrowing is concerned, in rural preference was given to money lenders as they found the process simple and easy. In urban area ,banks were main source of borrowing.

3) Financial Attitude

Third factor which was judged in financial literacy was financial attitude. It was judged through their way of financial planning, saving and consumption attitudes.

Persons in lower age group showed better financial attitude in comparison to higher age group. They seemed to save for contingencies plan their budget in such a manner so that proper saving is there. Married had better attitude in comparison to single. Gender does not seem to have any effect in attitude.

Other findings about financial literacy from the survey:

It is observed that young urban population has very good knowledge of financial products. They can differentiate private and public sector banks, risk involved in private banks, NBFCs etc. Atleast 60% of urban male and 40% of urban female used e banking. They were using debit cum ATM cards for withdrawal of money and shopping. But in rural area only 30% of males used these cards. Among rural females it was only 5% who was even aware of these cards. Retirees in urban had very

good plans for income. They either had their pension, or had invested in bank fixed deposit for monthly/ quarterly income benefit schemes. In rural area people were not aware of retirement plans.

Conclusion / suggestion:

There is urgent need for improvement of financial literacy. Whatever products are available are not known to majority of population especially in rural area. The situation can be improved by banks / Government by opening more of Kisaan club like offices, wherein staff should be there who can explain rural people about different financial products and their benefits. Financial products / services can be highlighted in TV channels, Radio programmes. Efforts should be made to make them confident in coming to bank branches. Even the staff of rural branches should be properly trained to smoothly deal with rural people. This will encourage them and finally they will be financially included. Various IT tools can be used for providing financial services at their door but knowledge has to be given to rural mass first to build their confidence.

As far as borrowing is concerned display of various Government schemes and products should be done by way of pamphlets in regional language. There should be more emphasis on education loan. Rural mass should know that their children can study even if limited means are there. Loan sanction / disbursement process should also be as simple as possible.

Thus it is clear that financial literacy is a must for financial inclusion. Population should have proper knowledge, behaviors and attitude then only successful implementation of financial inclusion plan can be achieved. Financial service providers should focus on financial literacy, simple and flexible products and speedy transactions. Products should be there for all the class of customers.

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