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INFLUENCE OF FINANCIAL LITERACY ON THE FINANCIAL INCLUSION: A BASIC ANALYSIS

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ABSTRACT

The term 'financial inclusion' has obtained significance since early 2000, because financial exclusion is directly correlated to poverty. Financial inclusion refers to the process of providing financial services to weaker sections of society at affordable costs. For this purpose, India Government and RBI have been making different measures. Among these, Financial Literacy Centers (FLCS) have prominent role. The investigator made an attempt to study influence of FLCS in financial inclusion process during 2010 to 2016. The effective of financial inclusion depends upon FLCS because FLCS are engaged in supplying financial information. Therefore, FLCS are not proper, financial inclusion will not be effective and vice versa. Financial stability depends upon demand



for and supply of financial services. To conduct the study, primary and secondary data are used. The study concluded that there is significant influence of FCLS in the financial inclusion process but its implementation not proper.

KEYWORDS: Financial Inclusion, Inclusix, Financial Tripod, Financial Exclusion, Financial Literacy, Financial Literacy Centers.

INTRODUCTION :

"Most poor people in the world including India still lack access to sustainable financial services, whether it is savings, credit or insurance (Kofi Annan,

former United Nations Secretary General). While poverty persists, there is no true freedom (Nelson Mandela). Poverty is the worst form of violence (Mahatma Gandhi). Therefore, financial inclusion is inevitable one for overcoming poverty. Financial Inclusion may be defined as the process of ensuring access to financial services timely and adequate credit where needed by vulnerable groups at an affordable Cost (The Committee on financial Inclusion, Chairman Dr. C. Ranga Rajan). "Financial stability Report: 2014" revealed that growth in bank credit and deposits has been relatively low in

the recent past. Slow down growth of credit affected agricultural and allied activities, the gross domestic saving rate declined to 30.1%. "Measuring financial inclusion", Policy Research working paper, 6025, World Bank 2012-2013 indicated that a lot has to be done to bridge the gap between the formal financial institutions and the rural people needs. "Asia Pacific Journal of Research, June 2013, Vol. 2, Issue 4, Concluded that approximately 245 million adults in rural India didn't have a bank account today. 60 million out of 245 million may not need banking services because they are below the poverty line and 185 million "potentially bankable" people did not use formal banking services because of reasons like poor access or usage." "Business standard news of financial inclusion indicated":- "even though the

financial inclusion program was implemented, it was observed that only business correspondents were appointed and accounts were opened. Many of the accounts remained un-transacted.”

“World Bank ‘Financial Access Survey’ Results showed the financial inclusion level of India is on an average as compared with most of developing countries in the world.”

LBS and FLCS have wide role in the present situation of financial inclusion is not much effective due to various reasons. The study focused on the analytical study of the present role of LBS and FLCS in financial inclusion process. By analyzing its present role, we can decide whether there is any significant role of such schemes in financial inclusion.

CONCEPTUAL FRAME WORK REVIEW

Financial inclusion means universal access to a wide range of financial services at reasonable cost. Availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion public policy. Financial Literacy Centers creates awareness about different financial services among the public and there by create demand for the financial services. Lead banker is acting as a leader to coordinate the financial operations of all banks in that district to ensure proper supply of financial services to the public. The study concentrated on the analysis of present role of LBS and FLCS in financial inclusion process by considering financial inclusion trend during the past 5 years (2010 to 2014).

STATEMENT OF THE PROBLEM

“Financial stability depends upon the proper level of demand for and supply of financial services. If any imbalances in the level of proper demand for and supply of financial services, it directly affects financial stability. Financial Literacy Centers will ensure proper level of demand for financial services from the public .If the demand for and supply of financial services is not proper, it leads to financial instability in the country”.

OBJECTIVES OF THE STUDY

- To study the trend and effectiveness of overall financial inclusion in India.
- To study the influence of financial literacy centers on the trend and effectiveness of overall financial inclusion in India.
- To study the problems on account of the implementation of different schemes and programmes of financial literacy centers.
- To suggest measures for the overall achievement of financial inclusion in India.
- To give an idea about the financial inclusion area to which further research and study is to be conducted.

NEED OF THE STUDY

The study about the progress of financial inclusion in India has much significance because of the following reasons:

- Level of financial inclusion indicates the development of the nation.
- There is direct relationship between financial inclusion rate and level of banking services as well as poverty is the country.
- Rural development in a country is highly influenced by its financial inclusion process.
- Direct influence of financial literacy centers on financial inclusion process.

LIMITATIONS OF THE STUDY

- + The study much more based on secondary data and just supported by primary data.
- + Size of samples to collect primary data limited to 70.
- + Period of collected secondary data ranged from 2010-2016.
- + The study concentrated only on the influence of FCLs but some other programs and schemes that influenced to financial inclusion.
- + Accuracy of result depends upon the accuracy of the secondary data.

METHOD OF THE STUDY

Primary data collected by questionnaire and schedule method. Secondary data collected from journals, magazines, newspaper, websites of government, public institutions. To collect primary data, sample of 70 respondents selected from the rural area of Vandazhy Gram Panchayath, Alathur Taluk, Palakkad District, Kerala State. The study mainly based on the analysis and interpretation of secondary and primary data.

RESULTS

The main results from the collection, analysis and interpretation of primary and secondary data are given below:

Secondary Data

Table 1: Context of India Bank

S. No.	Particulars	2010	2013
1.	Number of Branches (Urban)	85,457	1,02,343
2.	Number of Branches (rural)	33,433	37,953
3.	Basic Saving Bank Deposits accounts (in Millions)	73.45	182.06
4.	ATM network (rural)	5196	11,564

Source: Measuring Financial Inclusion: RBI Policy Research Working paper 2013. Policy Research Working paper 2013.

Table 2: Financial Literacy Centers Progress

Number of FLCS (India)	Number of Camps conducted	Persons educated in camp (outdoor)	Persons educated (Indoor Services)
652	15,289	5,03,272	1,40,119
Number of FLCS in Kerala			
No. of Districts	No: of FLCS in Rural Area	Number of FLCS in Semi Urban & Urban Area	
14	8	65	

Source: Financial Literacy and Inclusion RBI Bulletin 2012.

Table 3: CRISIL INCLUSIX (on a 100 points scale)

2009 March	2010 March	2011 March	2012 March
35.4	37.6	40.1	42.8

Source: CRISIL REPORT 2012 (Based on 638 districts in India).

Table-4

Availing of Banking Services to Households (Census 2011)		
Rural Area	Urban Area	Total
54.4%	67.8%	58.7%

Source: Department of Financial Services, Govt. of India.

Table 5: Banked and Unbanked Population in India (%)

Total Population	Non-Adult Population	Adult Population	Urban Adult Population	Rural Adult Population	Banked Population (Rural)	Un-Banked Population (Rural)
100%	47%	53%	16%	37%	13%	24%

Source: Asia Pacific Journal of Research, June 2013, Vol. 2, Issue 4.

ANALYSIS AND INTERPRETATION OF SECONDARY DATA

From the following secondary data analyzing and its interpretation, the important points are given below;

- 1.Number of bank branches in Urban area increased from 85,457 to 1, 02,343 that is increased by 20% from 2010to 2013. But in rural area, it increased from 33,433 to 37,953(13%) during the same period.
- 2.Till 2012, only 656 Financial Literacy Centers functioning in India.
- 3.Till 2012, only 5,03,272 persons educated by outdoor campaigns and 1,04,119 persons educated.(indoor services)
- 4.From 2009 to 2012, CRISIL INCLUSIX showed an increasing trend from 35.4 to 42.8 that by 20% only, after 3 years.
- 5.As per census 2011, percentage of availing of banking services to households in rural area, it is by 54.4%, in urban area, it is by 67.8%. Total percentage of availing of banking services to all households in India only by 58.7%.
- 6.Out of total rural adult population in India, only 35% have banking services out of total adult population in India, nearly 69% located in rural area.

Primary Data

Table 6: Respondent’s Opinion Analysis

Particulars	Agree		Disagree	
	N	%	N	%
“New schemes of deposits, loans and other bank services are availing to customers up to data”	6	9%	64	91%
“The bank officials are continuously meet bank customers to ensure bank services”	8	11%	62	89%
“Lack of education and experience created problem to use bank services effectively”	65	93%	5	7%

Table 7: Financial Literacy Centers (FLCS)

Items	N	%
Respondents who have no idea about FLCS	57	82%
Have idea but not about near FLC	13	18%
Have idea about both FLCS and its centre but not get any financial literacy through it.	4	31%

Table 8: Purpose of Opening and Maintaining Bank Account

Deposits		Loan		NREGS		Govt. Subsidy and others	
N	%	N	%	N	%	N	%
32	46%	8	12%	20	28%	10	14%

Note: Out of total women respondents, 70% respondents have taken bank account for NREGS purpose.

Table 9: Constraints Level of Bank Loan

Items	N	%
Respondents who have taken bank loan	24	34%
Respondents who faced the constraints of loan sanctioning	21	88%
Respondents who obtained loan at the correct time	3	12%

Table 10: Tendency of Withdrawal from Bank Account as and When Any Amount Credited To It

As Early As Possible		One Week After		Try Not To Withdraw	
N	%	N	%	N	%
43	61%	8	11%	6	9%

Note: Irrelevant responses are ignored.

Analysis and Interpretation of Primary Data

From the analysis and interpretation of primary data, the points given below are relevant.

- 1.91% of the total respondents replied that the information about new schemes of deposits, loans and other bank services are not reached is rural area up to data.
- 2.89% of the total respondents argued that bank officials are not continuously meet bank customers to ensure bank services.
- 3.93% of the total respondents argued that lack of education and experience created problem to use bank services effectively.
- 4.82% of the total respondents have no idea about FLCS.
- 5.18% of the respondents who have idea about FLCS have not idea about their near FLCS.
- 6.31% of the respondents who have idea about both FLCS and its near location didn't receive any financial literacy.
- Nearly 14% of the respondents maintained bank account to get subsidy and other benefits.
- From the table, respondents have faced some sort of constraints while sanctioning loan and only 12% of the total respondent got loan at the correct time.
- Nearly 61% of the total respondents withdraw money from bank account as early as possible when any amount

credited to it.

DISCUSSION

From the overall analysis and interpretation of the data, main findings, suggestions, general implications of the study, Educational Implications of the study, scope for further study and final conclusion are given below.

FINDINGS

- Incremental in the number of branches in both urban and rural area only at increasing at decreasing trend.
- Banks preferred more to open branches in urban area rather than rural area. Availing of banking services to rural area is less than that of urban area.
- Only 656 FLCS functioning to provide financial literacy to 100 crore population of India and 15,289 financial literacy camps conducted by FLCS up to the period.
- Rate of CRISIL INCLUSIX from 2009 to 2012 showed increasing at decreasing trend. That means financial inclusion process of India showed increasing trend but its growth rate much low. Inclusion of financial services in rural area is low.
- Policies on account of loan repayments, requirements of securities, interest rate and severe conditions created problems for credit penetration in rural area.
- As per census 2011, only 54.4% of the total households have availed banking services. But it is in urban area, it is by 67.8%. While considering India, as a whole, 58.7% of the total households availed banking services.
- In India, even though, rate of adult population in rural area is greater than in urban area, banking services and habits in rural area less than in urban area. It may be due to unemployed adult population and inadequate banking habits, unawareness of banking services, lack of savings etc.
- Availability and awareness of new schemes of deposits, loans and other bank services to rural people are not up to date.
- Not much effort from the bank officials to meet customer's requirements continuously and effectively. They just supply the services which demanded by the customers.
- Lack of education and experience created problems among rural bank customers to use bank services effectively.
- New deposit and loan schemes are not adequate because it not based on the actual requirements of the rural customers.
- Most of the bank customers in rural area have no idea about FLCS. Even though they have some idea, they didn't have any idea about near FLCS and didn't get more financial literacy.
- Even though, NREGS's cash settlement by bank, promoted banking transactions, but it didn't support saving habit much more because when ever any amount credited to account, rural customers immediately withdraw it.
- Some Customers maintained account not for saving purpose but for getting Government. Subsidy & other befits. Whenever any amount credited to account, they immediately withdraw it.
- Rural bank customers faced a lot of constraints while sanctioning loan from a bank. They may shift to unorganized source of fund.
- Most of the customer who applied for loan cannot get at the correct time.
- Most of the rural bank customers have a tendency to withdraw money as early as possible when ever any amount credited to it (especially NREGS'S account holders)
- Illiteracy, low income savings, lack of bank branches in rural areas inadequate legal and financial Structure continue to be a road block to financial inclusion in India.
- Some of the bank customers, after loan taking, becoming quickly over-in-debited And leads to the point of committing Suicide.
- While dealing with bank officials rural bank customers felt English Phobia.
- Many of the accounts remain untransacted.
- Just one in two Indians have a savings account and one in seven has access to Bank credit. There are wide disparities in access to financial services too.

- While India's six largest cities have 10% of India's bank branches the bottom 50 districts have merely 2 percent of the bank branches.
- Infrastructure, Physical distance, limited delivery capacities, regulatory constraints, economics of rural banking etc are different access issues for rural customers.
- Bank officials explained different banking service only to educated persons & highly employed person & not to people in rural area because they think that such people don't interest in Investment.
- Most of FLCS Provided Services to Support their Sponsored banks.
- Most of the working age adults, farmer house in India are financially excluded from both formal and informal source.

Suggestions Following are the suggestions to attain over all financial inclusion in India.

- Relax KYC requirements for opening bank account, credit sanctions and other banking services without affecting security of banking services.
- Latest Technology Should be used to address the issue of outreach and credit delivering in rural and remote areas in a viable manner and make effective use of ICT to provide door step banking service by business correspondents model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence the banking system.
- All the banks should be involved in the promotion of Pradhan Mantri Jan Dhan Yojana scheme all over India.
- For up-scaling financial Inclusion adequate infrastructure such as digital and physical connectivity, uninterrupted power supply is prerequisites.
- Promote Vernacular language during banking services and communication and vernacularisation of all forms including legal forms connected with financial operations.
- Promote "Participatory Financial Literacy Campaign" whereby number of banks co coordinately conducting FL program.
- LBS and its members should have "competitive team spirit"
- Lead Banker Should ensure all the effort of all banks in a district for the overall improvement in CRISIL INCLUSIX by using the principle of 'chain based promotional system' that is development from rural to nation in a systematic order.
- FLCS should provide training demonstration on account of proper usage of ATM debit and credit cards etc to avoid complaints on account of them.
- Since post offices are closest to the rural people compared to bank branches and therefore promote "postal banking system"
- To standardize the information disseminated via FLCS, RBI should prepare uniform training and educational modules that would be distributed to all banks. Banks can translate the materials into different language, with focus on explaining basic banking products.
- Private sector banks should be given a greater role in LBS action plans particularly in areas of their presence.
- Promote 'payment banks' to spread payment services to small business.
- Every quarter, lead bank may organize awareness and feedback public meeting at various locations in the lead district wide publicly may be given to such meeting.
- While licensing banks, RBI and Govt. Should compelled to open more branches in rural areas.
- RBI should consider the performance level of FLCS, FL camps, persons educated by FL centers as basic criteria while ranking banks.
- Banks should maintain separate window to collect complaints from the custom and should immediately solve such problems. There should be a separate staff to record and entry for smooth operations of the window.
- Central and state government should promote and implement more award of certificate to such banks which have performed well in rural India.
- Introduce "composite Risk sharing credit (CRSC) schemes" where credit granted to rural area by two or more banks.
- Address and phone number of FLCS should be printed on the face of the passbook and on the notice board by

the bank having FLCS.

- Financial Literacy Services must be provided in regional language of concerned area.
- Promote “Mutual Deposit Scheme” Under this Scheme, Collect small amount from different rural customers and get together as a bulk amount and invest it for high Interest and distribute it among the Contributors.

GENERAL IMPLICATIONS OF THE STUDY

Following are the general implications of the study.

- Financial Inclusion progress can be used as the indication for the progress of the country.
- The study revealed some sort of difficulties in the implementation of financial inclusion program and schemes.
- The results of the study can be used to identify the relationship between financial inclusion and rural developments poverty etc.
- The results of the study can be used to formulate and implement new financial inclusion program and schemes.

Educational Implications of the Study Following are the educational implications of the study

- Financial literacy club.
 - School bank/class bank.
 - Seminars, Discussions on account of banking habits and thrifts.
 - Training to students on account of online banking transactions.
 - Promote and connect Government grants, scholarship to students by online banking transactions.
- Scope for Further Study Given below are the areas to which further study in financial inclusion can be conducted.
- Conduct a study on the level of financial literacy among various sectors of employees.
 - Conduct a study on causes of emerging unorganized financial sector and its effect on organized financial sector.
 - Conduct a study on direct and indirect relationship between financial inclusion and poverty.

CONCLUSION

Financial Exclusion is the inability of individuals, households or groups to access necessary financial services in an appropriate form. To avoid such situation, officials of India implemented variety of measures. Even though, each scheme has its own significance in the financial inclusion process, but there are problems occurred in its implementation. So that full financial inclusion cannot achieved in India. The connectivity and technology issues, illiteracy, the low income savings, lack of bank branches in rural areas, inadequate legal and financial structures etc. Continues to be a road block to financial inclusion in many states of India. In order to create saving habits and thereby financial inclusion, first equip the rural people to earn excess income, government not only implement various schemes to channelize savings into organized sector but also facilities more and more employment opportunities in rural area and thereby create excess income, finally it leads to create saving habits and it will results in full financial inclusion

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