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Financial Literacy – A Key Parameter Towards Achieving Financial Inclusion

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Abstract

Agriculture has a strong occupational base in Indian culture. It had a huge contribution in the Indian economy during pre- and post-independence. The growth gradually declined and resulted in minimum contribution in the total economy. Enormous research highlighted the downturn of Indian agriculture due to financial inefficiencies of small and marginal farmers who are numbered the highest in the total population of farmers. The category had remained ineligible to be covered financially towards formal sectors and in turn had resulted in low irrigation and production of crops in their rested small acres of lands. Despite of the enormous efforts of RBI, Regional Banks and Financial Institutions, yet there remained a huge laggard in their financial upliftment. The research highlights that mere opening of savings accounts does not encourage its effective utilization unless it attains its adequate financial literacy. The research throws a light on various parameters "constrains" towards attaining adequate financial literacy in the aforesaid category and recommends the suggestions for the same. Stratified sampling with the total of 383 samples covering four blocks of the village of Puducherry have been opted for the research.

Keywords: Indian agriculture, Small and Marginal farmers, Financial inefficiencies, Financial upliftment, Financial literacy

1. Introduction

Financial inclusion pawed an excellent path of availing financial services to the excluded group in India. RBI, Financial Institutions and SHG rendered a tremendous aid to cover the uncovered financially. Financial inclusion is termed as the availability of banking services at an affordable cost to the disadvantaged and low-income groups. But including the weaker sections financially has become a challenging task for all the nations in the world. Despite of all the measures, still it is estimated that over two billion people do not have any access to financial services. It has been believed a nation can grow economically and socially if it's weaker section can turn out to be financially independent. India has taken several steps to bring financial inclusion for the excluded people.

But yet, few categories of people such as marginal farmers, landless laborers, oral lesses, self-employed and unorganized

TABLE 1 Land holding & area operated in the U.T. of Puducherry as per agricultural census 2010–11 (All categories of farmers)

		Individual holdings		Joint holdings		Institutional holdings		Total holdings	
No	**District**	**Number**	**Area**	**Number**	**Area**	**Number**	**Area**	**Number**	**Area**
1	Puducherry	19,162	12,417	1474	1658	236	520	20,872	14,595
2	Karaikal	4388	5148	134	95	84	732	4606	5975
3	Mahe	6562	512	596	64	33	10	7191	586
4	Yanam	448	509	92	114	19	23	559	646
	State	**30,560**	**18,586**	**2296**	**1931**	**372**	**1285**	**33,228**	**21,802**

Source: Department of statistics, Puducherry, 2011.

enterprises, urban slum dwellers, migrants, unemployed, ethnic minorities, etc. do not have full-fledged access of banking services. The banking industry in India has shown tremendous growth in the volume and complexity during the last few decades but these financially excluded groups are yet to access or use banking services like savings, deposits, borrowing, payment and remittance facilities. Only 40% of population in India has bank accounts and out of this only half of the population uses financial services in a sufficient manner. India, despite of being an agricultural country, 45.9 million of the total 89.3 million farmer's household do not have access to the credit either from the formal or the informal sector. Only 27% of the total farm households use formal sources of credit. The most vulnerable group at the bottom of the pyramid of the farming population in the country are small and marginal farmers. The small and marginal are poor in the country. They do not have access to institutional credit for agriculture purpose. Banks also feel that these two categories of farmers are not credit worthy due to their small size of land holding which possess high credit risk. Owing to inadequate access to financial services, these groups borrow funds from non-institutional sources at a high rate of interest. The marginal farmers hold 80.6% of agricultural land but they operate only 43.5% of the total agricultural land held by them and due to low size of land holding, they fail to become eligible for institutional credit.

The below table depicts the total holding of agricultural lands by all categories of farmers. Puducherry State holds the maximum among the other states due to a large number of villages and its maximum blocks out of total Union Territory. The above shows the average size of land holdings by all categories of farmers in the Union Territory of Puducherry. It depicts that institutional holdings dominate individual and joint holdings of all categories of farmers. Institutional holdings perform mass production giving less room for the growth to individual and joint holdings. RBI, Financial Institutions and SHG rendered a tremendous aid to cover the uncovered financially. Despite this, this still lacks coverage of financial services because of their eligibility criteria and low level of financial literacy. These marginal and small farmers avail production and investment credit from institutional agencies like PACS, PLDB/SLDB, Commercial Banks and Regional Rural Banks (Table 1).

1.1 100% financial inclusion in Puducherry State in the year 2012

The Union Territory of Puducherry was the first to attain financial inclusion in the year 2012. In the year, all the banks opened 2,322,413 saving bank account out of which 29,380 accounts were covered under ICT-based financial inclusion. Besides these, smart card facilities, doorstep banking in the unbanked areas, Financial Literacy and Self Employment Training Institute were implemented. In addition to this, many villages were covered various delivery models like Business correspondents, Internet Kiosk, mobile vans, etc., were introduced.

1.2 Financial literacy the major constrain

Despite of enormous effort from the Government of India towards covering the exclude category, still they remained covered from an opening saving account point of view but uncovered of utilizing the available facilities of formal financial system. There are still cases that the small and marginal farmers are exploited with high-interest rates by the informal sectors. The main problem of being restricted of using or utilizing the financial products offered by the formal financial system is the lack of financial literacy. The Government of India has been successful in opening savings accounts to the majority of Indian Population but failed to educate the people towards its financial products. Small and marginal farmers who lack education tend to avoid visiting banks and use financial products and become the victims of high interest of loans borrowed from informal sectors (money lenders). Hence, yet the Government are to address the following questions to bring qualitative coverage of financial inclusion rather than quantitative.Are all the individuals who are covered financially well equipped to take financial decisions.?

1. Do the population covered financially, possess adequate knowledge of financial products offered by the formal financial system?
2. Are the installed or the implemented programmes on Financial Literacy running successfully?
3. Is there a full fledge support from formal financial institutions towards educating the excluded category financially?

The higher degree of awareness and understanding about savings, banking, credit and other financial products should be the first steps creating the demand and adoption towards the formal financial system. Only 5% of villages in India possess brick and mortar branches (**Nayak, 2012**) and only 54.4% of the households in rural areas utilize the services of formal sector due to low or no financial literacy. Financial literacy must be therefore the key parameter for effective financial inclusion, on an average, Individuals in India do not have more than three months' savings due to increased consumption expenditure. Therefore, overall savings rates have dropped drastically over the few decades (**Nayak, 2012**). There has been always a greater demand of availing credit especially for consumption purpose. Dependency on Informal sources and opaque sources of credit has always been a major problem in India. Financial literacy therefore can be recognized as the core skill which is essential for the consumers to operate in complex financial environment (**Atkinson & Messy, 2012**).

2. Research gap

The studies conducted on the importance of financial literacy for the rural people are confined to the countries like the US. Very rare or less studies have been conducted in India that no studies conducted in South India especially in Puducherry reflecting its importance towards financial inclusion. Therefore, the Government should include a financial literacy, a major parameter to be improved in its policies towards attaining Financial Inclusion. Various innovative approaches need to be adopted to literate the illiterates or less literate financially.

3. Review of literature

Hung, Parker, and Yoong (2009) pointed out that "poor savings and investment decision may incur serious implications for long-term Financial health. The basic problem lies with the large segment with low level of financial literacy. A great deal of variation continues to exist in how researchers define and measure financial literacy itself. Studies need to be developed measuring the financial literacy in terms of its impact on individual's financial behavior".

Cohen and Nelson (2011) pointed out that fifteen years ago financial inclusion meant to be mirroring number of clients having bank accounts but at present it deals with ability to access and use "ability to choose financial services".

Gupta and Singh (2013) mentioned that "for the development of any country financial inclusion is a vital tool and at current it has become a global concern as well. Numerous researchers have widened their horizon on the same". They concluded that there is a large variation among different states of the country and low variation is witnessed at national level. Furthermore, the author also recommends the alternations concerned to the State Level Government policy regards to financial inclusion focusing the country's social cultural diversity.

Damodaran (2013) briefly elucidated in their article concerning to the Financial Inclusion, as an important priority for the country in terms of economic growth and development of society. Financial Inclusion is said to ensure the eased access towards financial system with regards people (despite to the knowledge/awareness in the same) resulting this to a minimized gap between the rich and poor. The author further emphasizes on the Technological Innovation and Financial Education that plays an eminent role in the development and acknowledgement of this Financial Inclusion System.

Nitiin (2013) attempts to assess the Behavior and Determinants of Financial Inclusion, and clears that "financial inclusions are the catalyst in the economic growth and progress in the modern era". "The findings in this article display that the importance of regional economic condition for the betterment of the same. The other determinants into the highlights for the Financial Inclusion are the income and employee generating scheme initiated through factory promotion and employee base in the company/firm as this creates more awareness on bank activities".

Thapar (2013) undertaken a research and recommended that "biometric cards for security in transaction, business correspondence in villages to promote financial inclusion program and it further emphasizes the collaboration of three parties i.e., RBI, all the banks and general public to put up a required effort to witness a progress in financial inclusion". **Hameedu (2014)** also highlighted that "there has been great increase inside the banking industry and recommended that the policy for accomplishing total financial inclusion also keeps changing to adapt to the desires of environment. The banks should confirm new techniques for the merchandising and attainment of financial inclusion".

Widhiyanto, Nuryartono, Harianto, and Siregar (2018) assessed the financial accessibility of credit program scheme and suggested to improve their efforts to increase financial education through learning, training, socialization with the theme of finance and banking. Those efforts are intended to increase the financial literacy of the community. Adequate financial literacy will create better public financial behavior so that they are able to access financial institution products and services to the well-being of the community and encourage the improvement of the national economy through the financial sector".

4. Objectives

1. To analyze the opinion of respondents about financial inclusion in Puducherry state
2. To find out the difference of opinion of Gender and type of family towards the measures taken by the government in promoting the awareness and literacy of financial products

5. Research methodology

The research in the study is descriptive in nature and adopts a survey method to collect primary data. It aims at assessing the awareness of respondents towards existed financial literacy of financial products and measure adopted by the government towards improving financial literacy. The variables such as gender and type of respondents' family have been taken for the assessment. Frequency and Sample *t*-test have been utilized as the tools for assessment. The sample of 383 by stratified sampling from various blocks of Puducherry villages has been chosen.

6. Null hypothesis

Ho (1): There is no significant difference between the Gender wise opinion and measures taken by the government in promoting the awareness and literacy of financial products

Ho (2): There is no significant difference between the type of family and measures taken by the government in promoting the awareness and literacy of financial products

7. Analysis and interpretations

The below table shows that 82.8% of the respondents opined "No" about encountering any financial-based literacy programmes in their village and 17.2% of the respondents opined "Yes" (Table 2).

The below table shows that 33.4% of the respondents encountered financial-based literacy programmes in the form of dramas, 32.9% of the respondents

TABLE 2 Respondents' awareness towards financial products and adequate financial literacy towards it

S. No	Respondent awareness	Frequency	Percent	Valid percent	Cumulative percent
1	Yes	66	17.2	17.2	17.2
2	No	317	82.8	82.8	100
	Total	383	100	100	

encountered in the form of audio visual display, 20.9% of the respondents encountered in the form of media advertisement, 6.5% of the respondents encountered in the form of bank official lectures and 6.3% of the respondents encountered in the form of others (Table 3).

The below table shows that as per 48.85% of the respondents, bank officials only sometimes brief about the financial products when they visit the bank, as per 38.6% of the respondents bank rarely brief about financial products, as per 8.4% of the respondents they often brief, as per 3.7% of the respondents they never brief and only 0.3% of the respondents said that they always brief about financial products when they visit the bank (Table 4).

TABLE 3 Opinion towards Financial Literacy awareness mode

S. No	Financial literacy awareness mode	Frequency	Percent
1	Bank official lecture	25	6.5
2	Literacy based dramas	128	33.4
3	Audio visual display	126	32.9
4	Media advertisement	80	20.9
5	Others	24	6.3
	Total	383	100

TABLE 4 Role of Bank officials towards promoting Financial Literacy

S. No		Frequency	Percent
1	Always	1	0.3
2	Often	32	8.4
3	Sometimes	187	48.8
4	Rarely	148	38.6
5	Never	15	4.7
	Total	**382**	**100**

7.1 Testing of significant mean difference between gender, type of family and the measures taken by the government in promoting the awareness and literacy of financial products

Null Hypothesis

Ho (1): There is no significant difference between the gender wise opinion and measures taken by the government in promoting the awareness and literacy of financial products

An independent sample "*t*" test was conducted with an alpha level (type one error) 0.05 to evaluate the mean differences between respondent's gender's opinion about the impact of financial literacy results indicated that male opinion about the about the impact of financial literacy with mean 2.8 and SD 0.396 and female opinion about the impact of financial literacy with mean 2.92 and SD 0.384 was not significantly different with t value = −0.883, df = 381, $p < 0.05$. At 95% confidence interval, the mean difference between the two groups was −0.11552 to 0.04389. The significant 2-tailed value (p value) of equal variances assumed is 0.378 which greater than 0.05 (5%) so the null Hypothesis Ho(1) was accepted and inferred that there is no significant difference in Gender's opinion (Male and female) with respect towards the measures taken by the government in promoting the awareness and literacy of financial products (Tables 5 and 6).

Null Hypothesis

Ho (2): There is no significant difference between the type of family and measures taken by the government in promoting the awareness and literacy of financial products

TABLE 5 Difference of opinion of Gender towards the measures taken by the government in promoting the awareness and literacy of financial products

		t-test for Equality of Means				95% Confidence interval of the difference		
	t	**df**	**Sig. (2-tailed)**	**Mean difference**	**Std. error difference**	**Lower**	**Upper**	
Financial literacy Awareness	Equal variances assumed	−0.883	883	00.378*	−0.035	0.04054	−0.11552	0.04389
	Equal variances not assumed	−0.888	351.167	00.375	−0.035	0.04033	−0.11513	0.04351

TABLE 6 Difference of opinion of respondents type of family towards the measures taken by the government in promoting the awareness and literacy of financial products

		t-test for Equality of Means				95% Confidence interval of the difference		
	t	**df**	**Sig. (2-tailed)**	**Mean difference**	**Std. error difference**	**Lower**	**Upper**	
Financial literacy	Equal variances assumed	−2.231	383	0.026	−0.08933	0.04003	−0.16804	−0.01062
	Equal variances not assumed	−2.238	368	0.026	−0.08933	0.03991	−0.16781	−0.01085

An independent sample "*t*" test was conducted with an alpha level (type one error) 0.05 to evaluate the mean differences between respondent's type of family and its opinion about the impact of financial literacy results indicated that Nuclear Family's opinion about the impact of financial literacy with mean 2.85 and SD 0.383 and Joint Family's opinion about the impact of financial literacy with mean 2.85 and SD 0.383 was significantly different with t value = −2.231, df = 381, $p > 0.05$. At 95% confidence interval, the mean difference between the two groups was −0.16804 to −0.0162. The significant 2-tailed value (p value) of equal variances assumed is 0.026 which lesser than 0.05 (5%) so the null Hypothesis Ho(2) was rejected and inferred that there is significant difference in type of family with respect towards the measures taken by the government in promoting the awareness and literacy of financial products

8. Findings

The study depicted that the majority of the respondents are totally unware of the financial products offered in the formal financial system and the respondents who possess awareness have limited literacy towards. It also reveals that the rare media advertisement that provides minimum awareness of the different financial products. Apart from this, the small land and marginal farmers are yet unaware about the steps initiated by RBI in the rural areas. The study also determines the role of bank officials in promoting financial products. The respondents have opined that they give rare responses and awareness during every visit. Despite of advanced facilities like mobile banking, internet banking, kiosk facilities, etc., small and marginal farmers and other similar groups still have to depend on others due to low financial education. Further using *t*-test analysis have been performed to test the Gender and Family types of all categories of farmer's opinion towards the measures taken by the government in promoting the awareness and literacy of financial products. It has been found that in Gender Wise *t*-test analysis, let that be a male or female have a similar opinion or no difference of opinion (i.e.) unaware and less satisfied towards the measure taken. Similarly, the test related to type of family (i.e.) Joint or nuclear, have again no difference of opinion (i.e.) partially or fully unaware about the financial products and opined dissatisfied towards the measures taken to improve financial literacy. The RBI has installed many programs related to financial literacy. Counseling centers, awareness programs at schools, colleges and public places, allotting projects to reach the financial education in the rural areas, availing business correspondence, motivating self-help groups, availing the facility of micro finance, etc. but still there found to be a huge laggard in educating financially to these deprived categories.

9. Suggestions and conclusion

Financial literacy is a major parameter towards financial inclusion need to be addressed in an effective way. Small and marginal farmers are the major concern who are yet to be uplifted financially, must be educated on an individual basis or on a group basis. Reserve Bank of India has taken tremendous efforts but execution of efforts at the bottom level is missing. The business correspondent model can be utilized effectively from mere opening of bank account to educating them towards financial products.

Frequent and regular conduction of awareness programmes by the rural regional banks can also be an effective measure to improve financial literacy. Initiation of individual training of using all banking facilities by deploying school and college students at the door step of the target group can be proved effective. Education of using mobile banking for funds transfer, availing loan, etc. can be mandatory imparted. Awareness and mandatory utilization of kissan card, awareness towards crop insurance (Pradhan Mantri Fasal Bina Yojana) – an Insurance during Crop failure, subsidy for prompt repayment of loan, etc can improve the habit of savings and investment decisions in turn cam enhance financial literacy among the target group.

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