

Role of Financial Literacy in Financial Inclusion

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With reference to the above mentioned subject, we are submitting the abstract & full paper on the sub theme “Financial Literacy” paper entitled “**Role of Financial Literacy in Financial Inclusion**” at 7th International Conference. We submit abstract & full paper along with this through e-mail.

ABSTRACT

Financial inclusion, which plays a critical role in the economic development of the economy. A well developed financial system leads the economy towards inclusive growth. The essence of financial inclusion is to allow people belonging to vulnerable section in the urban and rural areas to contribute more actively to economic development. It is the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups, financial literacy refers to the knowledge for managing personal finance. It is an integral part of the financial inclusion. It is changing the behavior in the financial pattern and activities of individuals. The objectives of the paper are to understand the role of financial literacy to financial inclusion, to create awareness the educate consumer on access to financial services, availability of various types of product and their features to deliver the message to the target group through a methodical manner regarding the benefits and risks involved in making informed choices and to analyze the relationship between financial inclusion and financial literacy. Both primary and secondary data are used in the study. The study area is of Shivamogga City. The respondent size is of 60, who are working in different organization of Shivamogga City. The purpose of the study is to improve the understanding of financial products, concepts and risks through financial education/literacy by providing, instruction and advice by developing the skills and confidence of financial potential consumers and investors into becoming more aware of financial risks and opportunities to make informed choices to know where go for help into take other effective actions to improve their financial wellbeing.

Keywords: Financial inclusion, financial literacy, financial products & services, financial system.

INTRODUCTION

A sizable population of the world particularly poor, low and vulnerable group remained excluded from most basic financial services provided by financial sector. It has been universally accepted that financial sector and improving accesses to financial services accelerate economic growth and helps to achieve inclusive growth.

Financial inclusion refers to delivery by the financial system of the economy to its members. According to Dr, C. Rangarajan, it is the process of ensuring access to financial services and time being and adequate credits where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. The objectives of financial inclusion are to extent the scope the activities of the organized financial system to include within ambit people with low income. The essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access these services. There are three steps in the life style of financial inclusion:

1. Financial Literacy
2. Opening a Bank Account, and
3. Delivering Financial Services.

The important future strategies to aid in furthering financial inclusion through two sides. One is demand sides which includes features like involvement of grass root level organizations, rural infrastructure development, providing financial education, degeneration in agricultural growth, lack of banking habit and culture and inadequacy of extension services. On the supply side the factors which includes less outreach,

adopting mobile banking, human resource constraints, inefficient financial sectors, and hassles related to documentation and lack of procedure awareness.

Financial literacy or financial education refers to the knowledge required for managing personal finance are providing familiarity with and understanding of financial market products especially rewards and risks in order making and informed choices.

The access to financial services viz., deposits, loans, money transfer and insurance to poor and low income group households will help them to insure themselves against shocks such as illness of self or family members, loss of employment etc. and equip them to meet the eventualities in a better way and they need not be demoralized, it will also enable them to improve their income in their production and use with the help of bank credit at a cheaper rates.

The important features of financial literacy are, disseminating information regarding financial services and general banking concepts to various target groups including school & colleges going children, women in rural areas and urban poor, senior citizen etc, extending financial education which includes need for savings, financial services to electronic mode, ATM, online banking, e-commerce, e-business, mobile banking, smart cards, etc.

REVIEW OF LITERATURE

Hussein A Hassan A.L. (2009), “Financial literacy in UAE”, in the study he finds that financial literacy of UAE investors is well below the needed level. As well as it analyzes the relationship between the financial literacy and the influence of the factors that affect the investment decisions.

Volpe (2002), conducted a study to analyze the investment literacy of online investors. The study finds out the difference in the financial literacy level on the basis of age, gender, experience, education, income and previous online experience.

Anuradha Gupta (2012), “Financial inclusion impact and challenges”, defined the requirement of financial inclusion into estimate the social benefit from these initiatives.

Subbiah Nalini, (2012), “Role of Banks in Financial Inclusion, Volume-1, No.- 4”, expressed that financial inclusion is a tool for combating poverty. Access to various financial services enables the poor people to participate in the growth of the economy.

OBJECTIVES OF THE STUDY

1. To understand the role of financial literacy to financial inclusion.
2. To create awareness become educate consumer on access to financial services, availability of various types of product and their features.
3. To deliver the message to the target group through a methodical manner regarding the benefits and risks involved in making informed choices.
4. To analyze the relationship between financial inclusion and financial literacy.

METHODOLOGY

The study includes both primary data and secondary data. The primary data are collected through a questionnaire. The secondary data have been collected by books and publications, related information from net, magazine, journals. The study area is Shivamogga City. The Sample size is of 60. The Statistical tools used in the study are averages, percentage & cumulative percentage methods.

ANALYSIS AND INTERPRETATION OF DATA.

Table:- 1: Age of the Respondents

Sl No.	Age	No of respondents	Percentage	Valid percentage	Cumulative percentage
1	25-30	36	60	60	60
2	31-40	09	15	15	75
3	41-50	15	25	25	100
Total		60	100	100	

Source : Primary data.

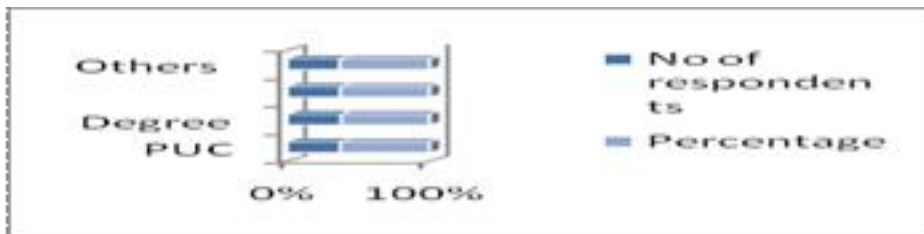


Inferenc : The 60% of the respondents were between 25-30years, 25% of the respondents between 31-40 years and 15 % of the respondents are between 41- 50 years.

Table :-2: Qualification of the Respondents

Sl. No.	Qualification of the respondents	No of Respondents	Percentage	Valid percentage	Cumulative percentage
1	PUC	09	15	15	15
2	Degree	17	28	28	43
3	Higher Education	24	40	40	83
4	Others	10	17	17	100
Total		60	100	100	

Source: Primary data.

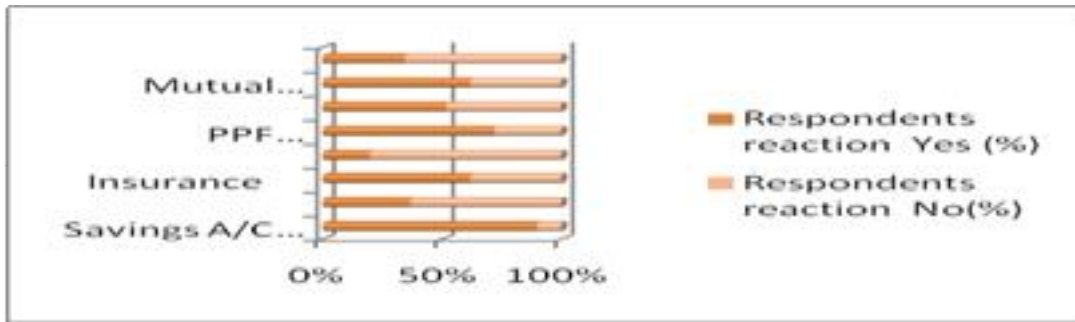


Inference: The 40% of the respondents are having their higher education, 28% of the respondents are having their degree education, 17% of the respondents are having their other education and 15% of the respondents are having their PUC education.

Table:-3: Formal Investments and Awareness of the Respondents.

Sl. No.	Variables	Respondents Reaction Yes (%)	Respondents Reaction No(%)
1	Savings A/C in Bank	90	10
2	FD & IT Exemption Awareness	37	63
3	Insurance	62	38
4	Post office Savings	20	80
5	PPF Awareness	72	28
6	NSC A wareness	52	48
7	Mutual Funds Awareness	62	38
8	Shares	20	38

Source: Primary data.

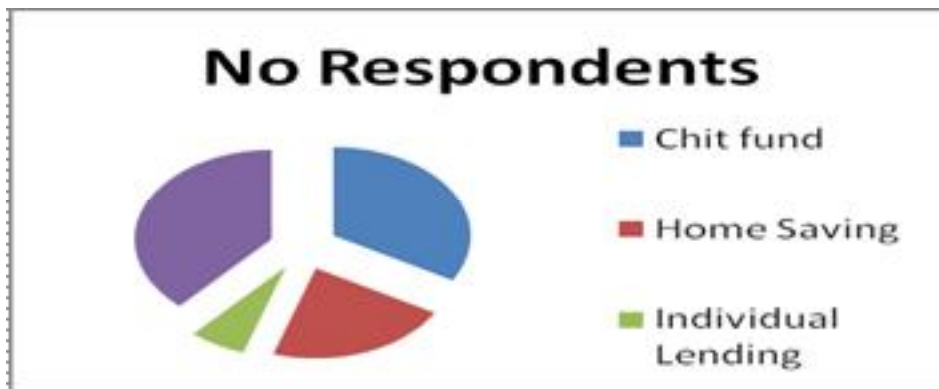


Inference: The 90 % of the respondents are having knowledge about Savings A/C in Bank,19% of the respondents are not having knowledge about Savings A/C in Bank, 72% of the respondents are having knowledge about PPF ,62% of the respondents are having knowledge about insurance & Mutual funds, 52% of the respondents are having knowledge about NSC and 20% of the respondents are having knowledge about post office savings.

Table:-4: Informal Investments and Awareness of the Respondents.

Sl. No.	Variables	No Respondents	Percentage (%)	Cumulative Percentage
1	Chit fund	20	33	33
2	Home Saving	13	22	55
3	Individual Lending	04	07	62
4	Nothing	23	38	100
Total		60	100	

Source: Primary data.



Inference: The 33 % of the respondents are having informal awareness about chit fund, 22% of the respondents are having informal awareness about home savings 38% of the respondents are not having informal awareness and 7% of the respondents are having informal awareness about individual savings.

Table:-5: Income of the Respondents.

Sl. No.	Income per Month	No of Respondents	Percentage	Valid Percentage	Cumulative Percentage
1	Less than 15000	15	25	25	25
2	15001-20000	20	33	33	58
3	20001-25000	19	32	32	90
4	Above 25000	06	10	10	100
Total		60	100	100	

Source: Primary data.



Inference: The 33% respondents are having income between Rs15001-20000, 32 % respondents are having income between Rs 20001-25000, 25 % respondents are having less than Rs 5000 and 10 % respondents are having income above Rs 25000.

FINDINGS

- 60% of the respondents were between 25-30 years and 15% of the respondents are between 41- 50 years.
- 40% of the respondents are having their higher education and 15% of the respondents are having their PUC education.
- 90 % of the respondents are having knowledge about Savings A/C in Bank, and 20% of the respondents are having knowledge about post office savings.
- 33 % of the respondents are having informal awareness about chit fund, and 7% of the respondents are having informal awareness about individual savings.
- 33% respondents are having income between Rs15001-20000 and 10 % respondents are having income above Rs 25000.

SUGGESTIONS

- ❖ Financial education at the school level would involve the basic concepts for laying a strong foundation.
- ❖ A large number of stakeholders including the Central and State Governments, financial regulators, civil society, educationalist and others should be involved in spreading financial literacy.
- ❖ Financial literacy and credit counseling centers should focus on educating people on availability of various deposit, credit and remittance products offered by banks.
- ❖ Use of mobile financial literacy vans by banks and weekly radio programmes on financial literacy can be source for financial literacy.
- ❖ Mass media campaign should tie ups with educational institutes, financial awareness, workshops, helplines, books, pamphlets and publications on financial literacy by NGOs, financial market players, etc.
- ❖ Conducting financial literacy programmes by rural self employment training institutes to farmers, club members, NGOs, SHGs members also useful initiatives in this regard.

CONCLUSION

In the context of financial inclusion, the scope of financial literacy relatively broader and it requires greater significance since it could be an important factor in the very access of such excluded groups to finance. Financial inclusion and financial literacy need to go hand in hand to enable the common man to understand the needs and benefits of the products and services offered by the formal financial institutions. So, from the paper it is clear that a perspective is essential by involving two elements one is the access and the other is literacy.

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