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FINANCIAL INCLUSION AND FINANCIAL LITERACY: A STUDY WITH REFERENCE TO KANNUR DT, KERALA

MANU JOSE

Research Assistant, Department of Humanities, Social Sciences and Management,
National Institute of Technology Karnataka, Karnataka, India

ABSTRACT

The period of economic reforms has witnessed the key catalytic role played by banks in the achievement of high growth in the Indian economy. While the benefits of reforms have concentrated in the hands of those already included in the formal financial system. The provision of simple and affordable products can help bring low-income families into the formal financial sector. Hence this paper attempts to comprehend and distinguish the status of financial Inclusion in the context of a developing country like India wherein a large population is deprived of the financial services which are essential for overall economic growth. This paper aims to study the determinants that measure the extent of financial inclusion and financial literacy and focuses on the awareness of people on various financial services rendered by the bank with specific reference to Kannur district, Kerala.A survey has been conducted among households to identify various aspects of financial inclusion and financial literacy. It also aims at find out the awareness of people on various financial products and services. The present study concludes that the delivering financial services to all sections of the population still remains a challenge that central banks around the world will face over the next few years.

KEYWORDS: Financial Inclusion, Financial Literacy, Financial Services

INTRODUCTION

Financial inclusion has become one of the most critical aspects in the context of inclusive growth and development. Financial inclusion is the process of ensuring access to appropriate financial products and services needed by weaker sections and low-income groups in the society at an affordable cost in a fair and transparent manner. Financial inclusion ensures delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities. Financial Inclusion and Financial Literacy are twin pillars. While Financial Inclusion acts from supply side providing the financial services to people. Financial Literacy stimulates the demand side- making people aware of various financial services.

The importance of an inclusive financial system is widely recognized in policy circles and has become a policy priority in many countries. Financial inclusion will lead to comprehensive growth, wherein each citizen of the country is able to use earnings as a financial resource that can be put to work to improve future financial status and adding to the nation’s progress.

Defining Financial Inclusion

Claessens (2006) has defined financial inclusion as the availability of a supply of reasonable financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and non-pecuniary costs. Committee on Financial Inclusion chaired by Rangarajan, (2008) defined financial inclusion as the process of ensuring access to financial services and timely adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial Inclusion as mandated by Reserve Bank of India, denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low income groups. Access to finance has been defined by Demirguc-Kunt and Levine (2008) as the absence of price and non-price barriers.

Financial Education/Financial Literacy

Financial literacy is defined as the ability of an individual to make informed judgments and to take effective decisions regarding the use and management of money (Schagen, S. & Lines, A. 1996). Financial literacy allows people to manage their earnings and therefore better manage their life events like education, illness, job loss or retirement. It has been noted that low financial literacy significantly contributes to financial exclusion in general and self-exclusion in particular. Many poor people opt out of formal financial systems due to misconceptions about price of credit. Many are unaware of the best utilization of credit facilities including micro credit facilities where markets have become more competitive in recent years.

Improved financial education can bridge these gaps. Thus, benefits of financial education can be enormous not only to individuals, but to society as a whole. With increased financial education, there will also be an increased demand for financial services from the poor, which will further assist in percolating the benefits of inclusive finance throughout every strata of the society.

Financial Inclusion and Economic Development

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and economic development. It has become an integral part of efforts to promote inclusive growth. Financial services include a wide range of products such as savings, suitably designed loans, insurance, credit, payments, etc. The efficacy of the financial system depends on its ability to source funds from surplus units and finance deficit units. Inclusive growth may also make poverty reduction efforts by explicitly creating productive economic opportunities for the poor and vulnerable sections of the society

Inclusive growth as a strategy for economic development received attention because of the rising concern that the benefits of economic growth have not been equitably shared (Chakraborty, 2010). Financial inclusion ensure that appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the basic form of financial intermediation, it may include no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance, etc. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through it attempts to lift the poor from one level to another so that poverty can be eliminated. Expectations of poor people from the financial system is security and safety of deposits, low transaction costs, convenient operating time, minimum paper work, and easy access to credit and other financial services, including remittances and consumption.

Many researchers have been able to establish the impact of availability and access to formal sources of finance on poverty alleviation. Eastwood and Kohli (1999) have found that branch expansion programmes and directed lending programmes have enhanced small scale industrial output. Bell and Rousseau (2001) found that financial intermediaries have a major impact on India’s economic performance. (Chen, H. and Volpe, 1998), (Schagen, S. & Lines, A. 1996), and (Roy Morgan, 2005) revealed that social factors such as level of income and employment status affect the level of financial literacy. The cost of low financial literacy rates is substantial for the society and has been clearly identified by researchers (Burgess, 2003, Worthington, 2006)

METHODOLOGY

The source of the data for the study was collected from primary and secondary sources. To understand the various aspects of financial inclusion, the level of financial literacy the questionnaire was designed and the data collection was done in Kannur District, Kerala. The purpose of survey is to identify various aspects of financial inclusion. One was the savings side to assess the number of households having a bank account, the type of account, the reasons behind opening an account as well as reasons behind not having such an account, and the awareness among people on the recently launched initiative of no-frills accounts. On the borrowing side is to assess whether the identified households which have ever availed of loans from institutional or non-institutional sources, their reasons of selecting the mode of borrowing and whether they have ever been refused credit and on what grounds. The survey also looked at other financial products mainly insurance and services mainly financial counselling as well as financial education being provided by organisations and the financial services sector.

ANALYSIS

There are issues with drawing conclusion from surveys that take on an academic view of testing the knowledge of financial literacy. This research offers to solve this complex problem by assessing basic questions in areas of savings and borrowings that are applicable to the whole population. The first step towards determining the extent of financial inclusion is to identify the indicators that measure the level of accessibility of financial services in a country. Policy makers need reliable information about the extent of inclusiveness in order to frame policies and initiatives to overcome the barriers.Kempson et al (2004) have identified six common reasons for financial exclusion.

These barriers are identity requirements, terms and conditions of bank accounts, levels of bank charges, physical access to bank branches, psychological and cultural influences and ease of use of banking services. Some of the constraints that are specific to individuals are low literacy levels, low level of income, psychological and cultural barriers, accessibilityand lack of awareness. Chakraborty (2010) has classified these barriers as supply side barriers which are expected to be mitigated by banks and demand side barriers which are expected to be overcome by the financially excluded.

Table 1: Multivariate Tests

Effect		Value	F	Hypothesis DF	Error DF	Sig.
Intercept	Pillai's Trace	.932	5.848E2[a]	4.000	172.000	.000
	Wilks' Lambda	.068	5.848E2[a]	4.000	172.000	.000
	Hotelling's Trace	13.599	5.848E2[a]	4.000	172.000	.000
	Roy's Largest Root	13.599	5.848E2[a]	4.000	172.000	.000
Financial Advice centre/ Credit Counselling Centres in the Area* Advice on Money Matters* Awareness on no-frill account	Pillai's Trace	.542	1.143	96.000	700.000	.178
	Wilks' Lambda	.556	1.139	96.000	683.894	.185
	Hotelling's Trace	.639	1.135	96.000	682.000	.191
	Roy's Largest Root	.238	1.738[b]	24.000	175.000	.023**

****5% level significance**

Table 1 shows the variance between the dependent variables age, gender, occupation and the number of size of households and the independent variables financial advice centres/ credit counselling centres in the area, advice about money matters, and awarenesson no-frill account by the respondents. The results shows that there is a significant relationship between the categorical variable and the level of financial literacy.

Table 2: Multivariate Tests

Effect		Value	F	Hypothesis DF	Error DF	Sig.
Intercept	Pillai's Trace	.975	1.288E3[a]	4.000	130.000	.000
	Wilks' Lambda	.025	1.288E3[a]	4.000	130.000	.000
	Hotelling's Trace	39.621	1.288E3[a]	4.000	130.000	.000
	Roy's Largest Root	39.621	1.288E3[a]	4.000	130.000	.000
Savings a/c * Borrowings * Other Financial products * Refusal of Credit/ Loan * Refusal of Financial Products	Pillai's Trace	1.536	1.257	264.000	532.000	.015**
	Wilks' Lambda	.136	1.280	264.000	522.157	.009*
	Hotelling's Trace	2.679	1.304	264.000	514.000	.006*
	Roy's Largest Root	1.082	2.181[b]	66.000	133.000	.000*

Table 2 shows the variance between dependent variables of Age, Gender, Occupation and the number of family members of the respondents and the independent variables ofsavings bank account, borrowings, refusal of credit, financial services used and refusal of financial services of the respondents. The results shows that there is a significant relationship between the categorical variable and the level of financial inclusion.

Financial Inclusion Concept in India

In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. The Reserve Bank of India setup 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. Financial inclusion in the Indian context implies the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded

Reserve Bank of India has been undertaking financial inclusion initiatives through relaxation of regulatory guidelines and other supportive measures to achieve sustainable and scalable financial inclusion. Starting with nationalization of banks, priority sector lending, lead bank scheme, establishment of Regional Rural Banks, service area approach, self-help groups – bank linkage programme, the banking industry in India has created an environment conducive to enhance financial inclusion. Some of the recent initiatives include offering no frills account, introducing Business Correspondents and General purpose credit card for small deposits and credit.

Financial Inclusion is an indisputable strategy for attaining inclusive growth in a developing economy like India. Bell and Rousseau (2001) have confirmed that financial intermediaries engage in a leading responsibility in influencing the performance of the Indian economyThe Government of India and Reserve bank of India have taken initiatives to enhance the financial inclusion in India. The impetus came from schemes like relaxed KYC norms, no-frills accounts and General purpose credit cards for small deposits and credit since 2005-06.

CONCLUSIONS

Financial Inclusion has been a catch phrase for the past few years. Delivering financial services to all sections of the population still remain as a challenge that central banks around the world. Financial education will lead to financial inclusion. Therefore a literate population must be created in order to create a meaningful financially included population.Banks in the country can go towards using business correspondents for reaching out to the unbanked population. However, with the increasing penetration of technological developments in the country and greater reach, mobile based business models will prove to be instrumental in realizing branchless banking and taking it to higher grounds by enabling low cost and real time transactions over secure networks.

From the study it can be concluded that efforts have been made to achieve the inclusive finance, but for a diversified country like India it is necessary to provide the basic financial services first, and customize the model as per the needs. It will lead to financial development of the country. Empirical evidence shows that economic growth follows financial inclusion.The Government of India and Reserve bank of India have come out with a major initiative towards ensuring the inclusive growth through financial inclusion so that the access of financial service will reach to the mass population.

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