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TWIN PILLARS OF INDIAN BANKING: FINANCIAL LITERACY AND FINANCIAL INCLUSION

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Abstract:
The need for financial literacy and its importance for achieving financial inclusion have been widely recognised. Based upon literature review, various research studies on financial literacy initiatives and data analysis through an assumptive approach and secondly, through secondary data collection as collated from the Reserve Bank of India statistical tables cum census of India, this paper is an attempt to bring to the fore a dimension/correlation between Financial Literacy and Financial Inclusion. It is an attempt to understand as to how customising and in general too financial literacy programmes in India are crucial for greater penetration of Inclusive Banking and how they both complement each other in order to stand as the two strong pillars of BankinginIndia.

Key words: *Financial inclusion, financial literacy, financial education, Banking*

Executive Summary:
Financial literacy is a key factor to financial inclusion and a necessary pre-condition for success in its drive. Both, financial literacy and inclusion needs to be treated as twin pillars. Without increased financial literacy, people will be increasingly at risk of making poor financial decisions which leave them to confront financial hardship, including an insecure old age. Financial literacy is making people aware of what they can and should expect from the banking sector, as their right. In this context, financial literacy and inclusion are a win-win opportunity for the poor, for the banks and for the nation as a whole. There is urgent need for concerted efforts, focus and improvement in the space of education. Whatever products available today are not known to the majority of the population especially, in the rural areas. The situation can be improved by banks / Government by opening number of inclusive banking innovative outfits, wherein staff can explain rural people about different financial products and their benefits. Efforts needs to be made to make the poor people confident in coming to the bank branches and connecting with main GDP streamline of the country. Even the staff of rural branches needs to be trained to deal with rural people. Various IT tools can be used for providing financial services at their door – steps to build their confidence. Through the run of an SPSS model, it is clear here that financial literacy is a must for financial inclusion. Population should have proper knowledge, behaviours and attitude then only successful implementation of financial inclusion plan can be achieved. Financial service providers needs to focus on financial literacy, simple and flexible products and speedy transactions.

Providing the *right advice* at the *right time* and with the *right approach* is the key and hence the vast scope for work and innovation.

To make things clear, financial inclusion focuses on volume or quantity whereas financial literacy is more about quality. While financial inclusion emphasises on creating more accounts in order to make the common banking facilities easily accessible to all, financial literacy emphasises on expanding the knowledge on financial matters and products so that one can,

- Understand how to use and manage money and minimize financial risk
- Manage personal finance quite efficiently
- Identify the benefits and facilities offered by banks and boycott the dodgy moneylenders.
- Derive the long-term benefits of savings

Introduction:

Government agencies around the world today are recognising the benefits to individuals and national economies of having a financially literate population that has access to appropriate financial products with relevant consumer protection in place. In recent years, the G20 has endorsed upon three sets of principles in this regard i.e. financial consumer protection, financial inclusion and national strategies for financial education, indicating firm commitment towards financial integration, thus bringing out the importance of Educational theory & practice, relationship and importance of Results. A measure of financial literacy can be used to indicate the need for level of financial education across population and more detailed analysis can be useful to identify aspects related to it that need the targeted support.

1.1 Financial Literacy (Education)

Financial literacy is an understanding of the most basic economic concepts education needed to make saving, borrowing and investment decisions. Financial Literacy is the base and primary step for financial inclusion (Education and the results). It provides knowledge on merits and demerits of financial products and services, based on that an individual can select the right product which suits his/her needs. In the words of **ShriPranab Mukherjee, (during his s**peech by The President of India, ShriPranab Mukherjee On The Occasion Of International Literacy Day 2014) - financial literacy refers "Financial literacy and education plays a vital role in financial inclusion, inclusive growth and sustainable prosperity". Financial Education ensures that financial services reach the weaker sections of the society. In order to improve the awareness around financial literacy, several schemes have been implemented by the Reserve Bank of India (RBI), the Security and Exchange Board of India (SEBI), Insurance Regulatory Development Authority, Pension Fund Regulatory and Development Authority (PFRADA).

An efficient financial market depends upon its participants, making rationale and prudent decisions. Financial literacy is an effective tool for financial inclusion, as they both go hand in hand. Accordingly, the need for FL and its importance for FI have been acknowledged by most of the stakeholders - policymakers, bankers, practitioners, researchers and academics – across the globe.

1.2 Financial Inclusion:

Financial Inclusion has become the buzzword. What is Financial Inclusion? Dr. Rangarajan's committee on financial inclusion defines it as: "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." The financial services include the entire gamut - savings, loans, insurance, credit, payments etc. People who are financially excluded are mostly poor and financially illiterate.

So far, the focus has only been on delivering credit and has been quite successful. Similar success has to be seen in other aspects of finance as well. Accordingly, the first question that comes to mind is why can't financial inclusion happen on its own? Why do we need to make a policy to increase the same? Like any other product or service, why can't it find a market of its own? The reasons could be:

Financial exclusion in general, High cost of financial services, ***Non-price barriers (***Access to formal financial services - distance between the bank and their residence, poor infrastructure etc., proof regarding a persons' identity, income etc.), and ***Behavioural aspects (missing*** comfort of using formal financial services, difficulty in understanding language, various documents and conditions applicable). These reasons go on to show that financial inclusion will not happen on its own.

Objective of the Study:

To study the correlation between the twin Pillars of Banking in India i.e. Financial Literacy and Financial Inclusion

Literature Review

As per the literature review, it is seen that the status of financial literacy is not satisfactory in India, especially in rural areas. According to a survey conducted by Standard & Poor's, over 76% Indian adults lack basic financial literacy and they don't understand the most basic and key financial concepts. In rural area people keep their saving in their homes which fetches them no interest and is risky too. They borrow from local money lenders charging them high interest rates. Moreover, traditional methods of availing financial services are more popular in rural areas. Some of the steps initiated by various leading institutions in India for increasing financial literacy are as follows.

a. 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, defence people etc. These informative projects disseminate information regarding RBI, basic banking, microfinance and benefits of availing services of SHG, risk capacity analysis etc.

b. Securities and Exchange Board of India (SEBI) runs 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. 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. Programs/workshops on various aspects viz. savings, investment, financial planning, banking, insurance, retirement planning etc. are organised.

c. Insurance Regulatory and Development Authority (IRDA) organises awareness programmes on television and radio and simple messages about the rights and duties of policyholders, channels available for dispute redressal etc. in English, Hindi and other Indian languages.

d. The Pension Fund Regulatory and Development Authority (PFRDA) 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.

e. Commercial Banks: In view of the national emphasis on electronic benefit transfer the commercial banks have initiated various measures for creating awareness through Financial Literacy and CounsellingCanters and Rural Self Employment Training Institutes on financial literacy. The objective of these canters is to advise people on gaining access to the financial system including banks, creating awareness among the public about financial management, counselling 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 counselling canters even train farmers/women groups to enable them to start their own income generating activities to earn a reasonable livelihood.

f. Similarly, Stock Exchanges, Broking Houses and Mutual Funds have initiated efforts in the field of financial education like conducting seminars, issuance of do's and don'ts, and newspaper campaigns.

Financial literacy is rapidly being recognised as a core skill, essential for consumers operating in an increasingly complex financial landscape. It is therefore no surprise that governments around the world are interested in finding effective approaches to improve the level of financial literacy amongst their population and that many are in the process of creating or leading a national strategy for financial education to provide learning opportunities throughout a

person's life (OECD/INFE, 2013b). The OECD definition of financial education goes like this - "Financial education is the process by which individuals improve their understanding of financial products and concepts; and through information, instruction and/or objective advice develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being and protection (OECD 2005a)".

"The future of our country depends upon making every individual, young and old, fully realize the obligations and responsibilities belonging to citizenship...The future of each individual rests in the individual, providing each is given a fair and proper education and training in the useful things of life…Habits of life are formed in youth…What we need in this country now…is to teach the growing generations to realize that thrift and economy, coupled with industry, are necessary now as they were in past generations." Theodore Vail, President of AT&T and first chairman of the Junior Achievement Bureau (1919, as quoted in Francomano, Lavitt and Lavitt, 1988)

"Just as it was not possible to live in an industrialized society without print literacy—the ability to read and write, so it is not possible to live in today's world without being financially literate… Financial literacy is an essential tool for anyone who wants to be able to succeed in today's society, make sound financial decisions, and—ultimately—be a good citizen." AnnamariaLusardi (2011)

According to an article on Financial Inclusion as published in The Economic Times, "No matter how many banks you open and how many boots you have on the ground, if a person does not know about the financial options that are open - policies, schemes and financial instruments will mean little. It is important for a person to firstly know what to look for and only then think of the benefits that he can obtain from it."

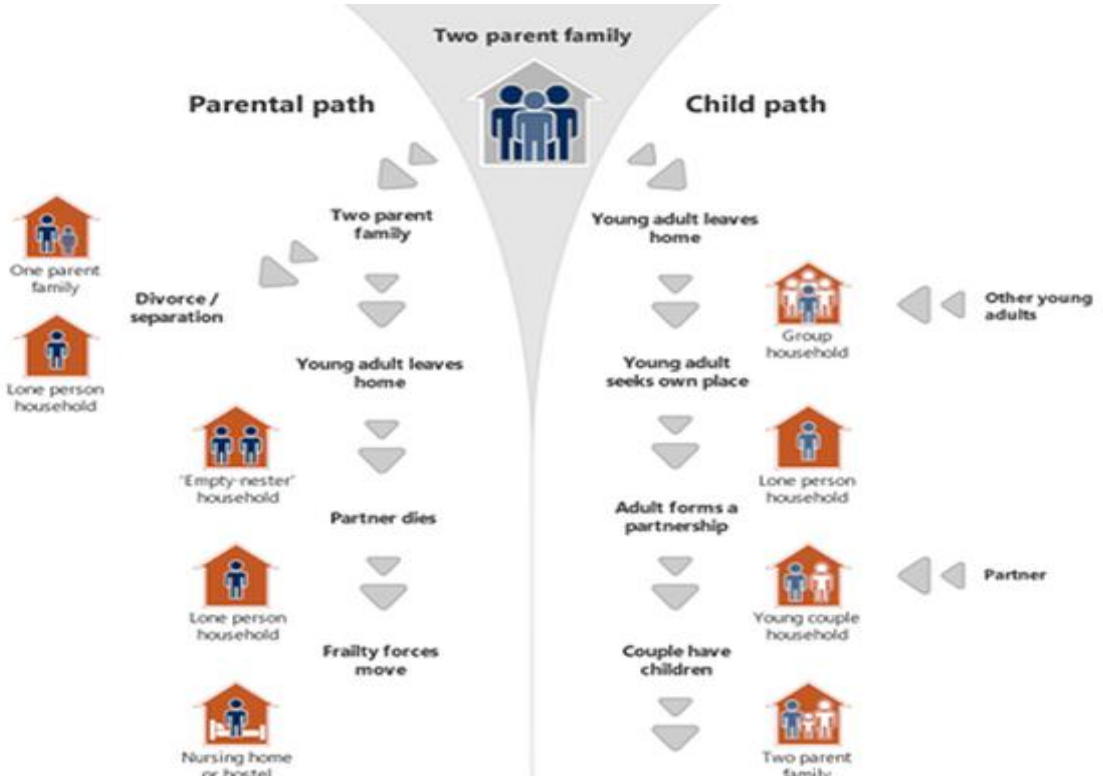
Methodology

In the absence of not much of data being available on the subject and in order to draw an inference about the relationship between Financial Literacy and Inclusion, two pronged methodology has been adapted here – *First*, an ***assumptive approach*** - studying the life cycle financial services needs of a normal human being. While doing the above, have kept the financial cum social status as constant.*Secondly*, **secondary*data collection*** from the RBI website on state-wise statistics published and census 2011 data as available in public domain

4.1 Analytical Research: Financial Literacy and Financial Inclusion: an assumptive approach:

Life cycle of an individual - children initially stay with parents and go to school. Following studies, they may move out of the parents' house and begin to live on their own. They then get married, form a couple and start their own family. By this stage, the parents are old, with reduced income levels because of lower physical capacity to work. They seek support from their children who have just been endowed with new responsibilities of a family, with children of their own to raise. The cycle continues with these children getting educated, moving out to find a job and then eventually raising their own families, while assisting their parents.

Figure 1. Life cycle of an individual/ household



Credits: This figure is based upon studies conducted by IFMR on the subject of financial literacy

Story of a typical household involves an *exchange of dependency and responsibilities* at each stage. Considering just the financial services' needs of the household over its life cycle, we observe that both are specific to the stage that the household or individual is in at a given point of time. For instance, as a school going kid (in his/ her teenage), an individual might require know-how of savings so that he/ she can save pocket money or scholarship and utilise it effectively. A young person who has just started working and receiving a salary, would require a banking service, complex investment products (given that youth are more inclined to risk-taking and are open to experimentation) and remittance services that would enable him/ her to send a portion of earnings to parents who are not able to do as much physical labour as they could earlier. As time progresses and the individual gets married and starts a family, he/ she is required to think about safer financial products and longer term investments. His/ her dependency ratio is highest at this point – both children and parents are dependent on the individual. As the individual becomes older, simple banking services are required to access remittances transferred by children, and welfare transfers from the government.
Considering these specific financial services' requirements at various junctures in life, we find four educational/teachable moments: school-going child (grown up enough to understand money and saving), youth (stepping into employment), middle-aged (married, and starting a family), and old age. These are the specific stages of transition in one's life, when the need for financial products/ services takes a leap highlighting the importance of understanding aspects related to these stages and to make the right financial decisions.

Post understanding the above mentioned stages of one's life cycle – various efforts have been made by Government, RBI, Commercial Banks, NGO's, NBFC's, MFI's, Business Correspondents,

IRDA, PFRDA, Mutual Funds and other relevant bodies in the space of Financial Education. Results of the same are that as of 31st March, 2016 financial inclusion in the country stands at more than 67%. Thus, proving that there is a high correlation between the two. To substantiate our above approach, researchers have gone ahead to prove the same through a set of data as below.

4.2. Data collection and analysis: relationship between Financial Literacy and Financial Inclusion

4.2.1 **Data Collection**:
Secondary data has been collected from the RBI website – statistical section and census data for 2011 from the Census of India web site. Secondary data is the data that have been already collected by and readily available from other sources. Such data are quickly obtainable than the primary data and also comes handy when primary data cannot be obtained at all. Researchers are well aware of the advantages and disadvantages of secondary data and the same have been kept in mind while conducting the data analysis.
4.2.2. **Data Analysis**:

Post data collection - as per 2011 census the average literacy (both, men and women taken together) rate of all states & Union Territories (UTs) taken together is 78%, Kerala being the highest literate state & Bihar having lowest scores of 63% in the data analysed. Similarly in terms of 'Number of Saving accounts per 100 populations' is highest in Puducherry having 183 account per 100 populations and lowest in Nagaland with 53 accounts per 100 population.

Chart 1: Descriptive Statistics

	Mean	Std. Deviation	N
LITERACY	78.3042	8.26601	36
DEPOSIT	1.3790E2	65.64117	36

Credits: The researcher

From the Pearson coefficient of correlation as shown in Chart 2 below, it clearly brings out the **'Positive correlation'** between both the variable literacy and saving accounts in other words 'literacy' with 'financial inclusion'.

Chart 2: Correlations

		LITERACY	DEPOSIT
LITERACY	Pearson Correlation	1	.452**
	Sig. (2-tailed)		.006
	N	36	36
DEPOSIT	Pearson Correlation	.452**	1
	Sig. (2-tailed)	.006	
	N	36	36

**. Correlation is significant at the 0.01 level (2-tailed).

Credits: The researcher

Where, Sig (2 Tailed): Significance Level
N: Number of cases
The above SPSS output shows there is a 45% correlation between literacy and financial inclusion and the result is statistically significant as the level of Significance is 0.006. Please refer chart 2 above.

4.2.2.1 Scatterplot between Dependent Variable – Deposit and Independent Variable – Literacy

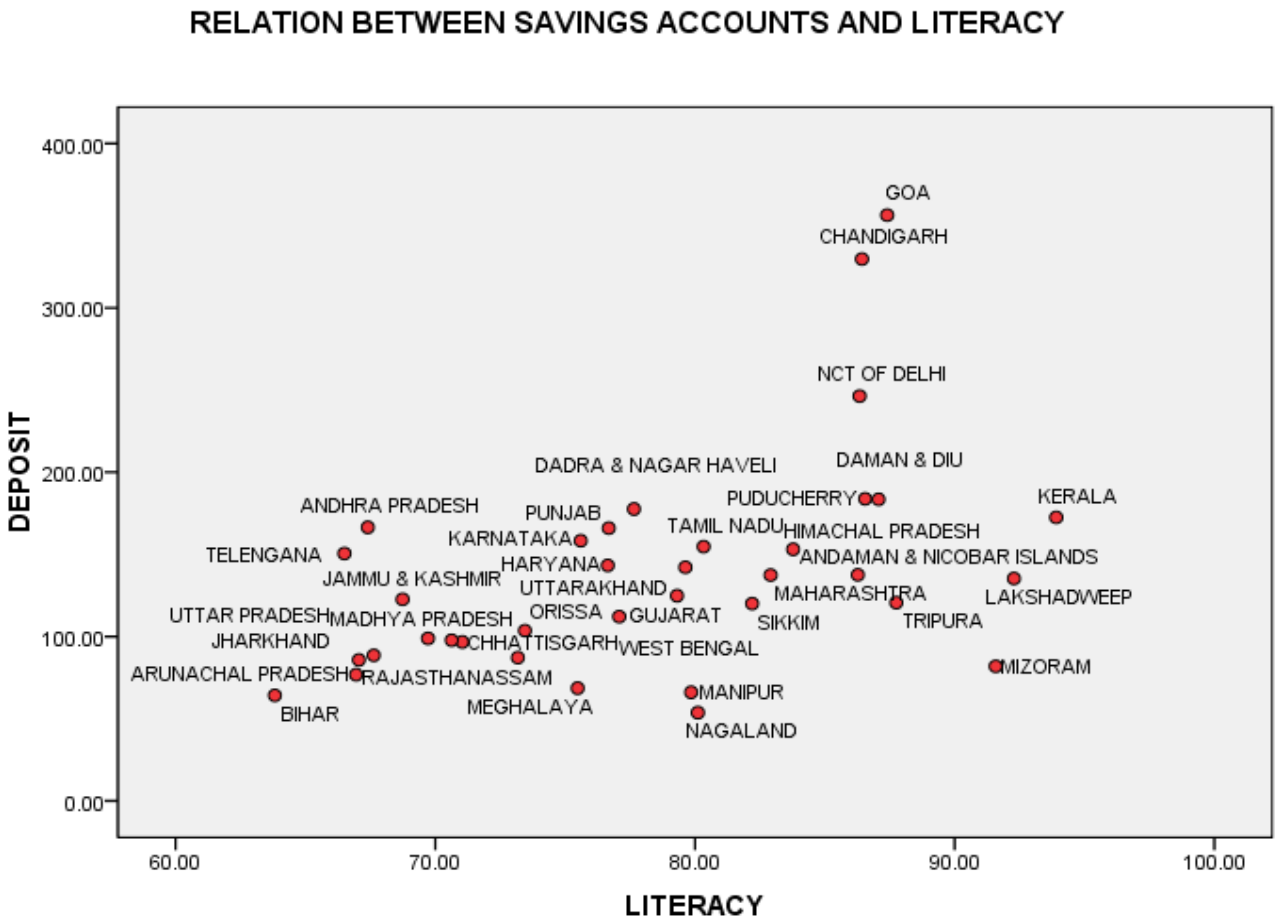
The pictorial representation through scatter plot (Figure 3 below) shows is quite interesting and following observations need special attention:

1. Delhi, Chandigarh & Goa are among the top states with number of deposit accounts however, the literacy rate is not highest in these states. This may be due to availability of labour, employment, industries, and various income generation activities.

2. Excluding the 3 states mentioned earlier, there is seems to be a perfect linear relationship between the variables

3. Though Manipur & Nagaland have literacy rate more than 80% however the number saving accounts is lowest as can be seen, this may be due geographical reasons, unavailability of infrastructure, poor connectivity, migration etc.

Figure 3: Relation between Savings Accounts and Financial Literacy



Credits: The researcher

4.2.2.2. Regression:

SPSS output of bivariate linear correlation between financial literacy and inclusion states that both variable are positively correlated and are independent variables – literacy explains 20% of the variation in the dependent variable and the result is significant with level of significance 0.6%. Please refer to chart 4 and 5 below

Chart 4: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.452[a]	.204	.181	59.40538

a. Predictors: (Constant), LITERACY

b. Dependent Variable: DEPOSIT

Credits: The researcher
Where, R: Coefficient of correlation

R Square: Coefficient of regression

4.2.2.3. ANOVA[b]

We have a null hypothesis that 'the literacy rate has no impact on 'number bank accounts', however the ANOVA (Analysis of Variance) through SPPS programme provide a F* value of 8.73 which is higher than the 'F Critical value' i.e. F (0.05,1 , 34) = 4.13 with a probability level 0.05, hence we reject the null hypothesis and accept the alternative hypothesis 'Literacy has impact on the number of Bank Accounts.

Chart 5

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	30820.736	1	30820.736	8.734	.006[a]
	Residual	119985.990	34	3529.000		
	Total	150806.726	35			

Credits: The researcher
a. Predictors: (Constant), LITERACY
b. Dependent Variable: DEPOSIT

Credits: The researcher
The predictive value of the dependent variable 'Number of Saving Bank Account per 100 populations' can be calculated by the equation 'Number of Saving Bank Account per 100 populations' = 3.59 * Literacy % + (-143) where -143 is constant of equation and 3.5 is the slope of equation. Please refer to chart 6 below.

4.2.2.4. Coefficients[a]

Chart 6:

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-143.211	95.636		-1.497	.143		
	LITERACY	3.590	1.215	.452	2.955	.006	1.000	1.000

a. Dependent Variable: DEPOSIT
Credits: The researcher

4.2.2.5.
Result:
The above research and data analysis goes on to explain the strong relationship between Financial Literacy & Financial Inclusion - one of the important major agendas of the Government, Policy makers and various other stake holders in Indian Sub-continent today.

Financial Literacy and Inclusion goes hand in hand, they complement each other and are highly correlated proving themselves as the twin pillars of Banking in India.

2. ***Limitations***:

As is the case with any other such research, the effectiveness of the relationship so presented between theory and practice is heavily determined by the quantity and quality of data that flows into it. Since the parameters were carefully chosen on the basis of the kind of data that is available in the States and with various other stakeholders, the scope of this research is perforce restricted at the moment to assess the level of financial literacy and financial inclusion at the geographical level. The silver lining, though, is that the correlation seems so tempting that it goes on to say that the derived values prompts to say that as and when more varied, reliable data becomes available, the scope of the above study can be expanded to measure the contribution towards financial inclusion by each city/district/village and even banks and nonbanking financial companies, as well as accommodate more parameters and refinements and encompass other forms of lending (such as by non-banking financial companies) and other financial services (including insurance and pension). The conclusions of the report are critically dependent on data received at the State level, and the scholars have not independently verified the accuracy of this data. However, this has no bearing on the final conclusions. Another limitation is that the data used in the analysis is granular in nature, and therefore, is available only with a lag. This report, for instance, assesses the extent of financial inclusion as on March 2016 along with Literacy rates as available both for Male and Females separately as per 2011 census data. Dimensions like cost of transaction and ease of doing transactions have not been considered due to non-availability of the reliable data, data related to various other aspects of financial inclusion, like; insurance, payment and remittances etc. have not been considered on account of non-availability of consistency and authenticity.

3. ***Conclusion:***

Financial literacy is a key factor to financial inclusion and a necessary pre-condition for success in its drive. Both, financial literacy and inclusion needs to be treated as twin pillars. Without increased financial literacy, people will be increasingly at risk of making poor financial decisions which leave them to confront financial hardship, including an insecure old age. Financial literacy is making people aware of what they can and should expect from the banking sector, as their right. In this context, financial literacy and inclusion are a win-win opportunity for the poor, for the banks and for the nation as a whole. There is urgent need for concerted efforts, focus and improvement in the space of education. Whatever products available today are not known to the majority of the population especially, in the rural areas. The situation can be improved by banks / Government by opening number of inclusive banking innovative outfits, wherein staff can explain rural people about different financial products and their benefits. Efforts should be made to make the poor people confident in coming to the bank branches and connecting with main GDP streamline of the country. Even the staff of rural branches needs to be trained to deal with rural people. Various IT tools can be used for providing financial services at their door – steps to build their confidence. Savings account opening and loan sanction / disbursement process should be kept simple as far as possible. Thus, it is clear that financial literacy is a must for financial inclusion. Population should have proper knowledge, behaviours and attitude then only successful implementation of financial inclusion plan can be achieved. Financial service providers needs to focus on financial literacy, simple and flexible products and speedy transactions.

Even though there is no blueprint to a successful financial literacy programme as yet, the efforts that are being put in by stakeholders to empower people while making them

financially literate are commendable (in order to achieve the objective of greater Financial Inclusion) but need to be more focused and customised as the rule of 'one size fits all' doesn't seem to apply. Providing the *right advice* at the *right time* and with the *right approach* is the key and hence the vast scope for work and innovation.

To make things clear, financial inclusion focuses on volume or quantity whereas financial literacy is more about quality. While financial inclusion emphasises on creating more accounts in order to make the common banking facilities easily accessible to all, financial literacy emphasises on expanding the knowledge on financial matters and products so that one can,

- Understand how to use and manage money and minimize financial risk
- Manage personal finance quite efficiently
- Identify the benefits and facilities offered by banks and boycott the dodgy moneylenders.
- Derive the long-term benefits of savings

And eventually, it will further the financial inclusion movement in India.

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