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THE FUNDAMENTAL ASPECTS OF FINANCIAL LITERACY AND FINANCIAL NEED IN RURAL AND URBAN AREA IN INDIA: AN OVERVIEW

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Abstract

In recent decades, India has actualized an extensive variety of changes, opening up the economy, and narrowing the gaps in the expectations for everyday comforts of its kin. However, an enormous piece of the nation's populace is socially and financially prohibited. It ends up noticeably basic that social inclusion is improved conceivable with Financial Inclusion. For achieving long manageability of economic growth, getting the benefits of growth to all areas of the populace is basic. This is conceivable just by a method for FI. FI is a conscious endeavour to bring the unbanked individuals into banking, and financial services are made available to all areas of the populace. The rural poor are denied attractive services by the formal financial sector in our country. More often than not, the poorest of the poor are denied credit because of nonappearance of satisfactory and reasonable collaterals. Moreover, the poor need credit in small measurements every now and again and that ought to be made accessible when it is required the most. Thus, the entrance to credit by the rural poor is particularly limited.

1. INTRODUCTION

Lack of banking information/propensities, high transaction and advantageous expenses keep individuals from financial inclusion. Unavailability, vicinity issues and inadequate foundation additionally obstruct financial inclusion. In the greater part of the cases, the rustic and urban poor, underprivileged/impeded, unskilled people, those with no/low salaries, women, children, transients and disabled are the individuals who are being avoided. Financial Inclusion (FI) goes for giving access to far-reaching financial services at moderate cost. It can be feasible just when the objective populace makes utilization of such services on a supported premise. For any financial inclusion activity to be effective, both the supply of and interest for financial services must be fortified. The supply side activities are principally determined by the financial services suppliers, the endeavours on reinforcing the request side are driven by the RBI [1].

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	Share with an account at a Formal financial institution			Adults saving in the past year		Adults originating a New loan in the past year		Adults with a credit card	Adults with an outstanding mortgage	Adults paying personally for health insurance	Adults using mobile money in the past year
	All adults	Poorest income quintile	Women	Using a formal account	Using a Community based method	From a formal financial institution	From family or friends				
1	2	3	4	5	6	7	8	9	10	11	12
India	35	21	26	12	3	8	20	2	2	7	4
World	50	38	47	22	5	9	23	15	7	17	7

Table 1: Key Statistics on Financial Inclusion in India (in comparison with world): A Survey

Under the Financial Inclusion venture, a Seven State FL Assessment Study was directed, and point by point state-wise reports was readied. A progression of counsels with the state level partners in each of the seven undertaking states (Rajasthan, Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh and Odisha) were held to share the discoveries of the FL appraisal think about and set up an FL Strategy report for each State [2].

2. CONCEPT OF FINANCIAL LITERACY

The often neglected poor additionally require a range of financial services, for example, chances to win, protect the well-deserved wage, or credit to help them in keeping up, in any event, absolute minimum levels of sustenance as the year progressed, chance moderating services like protection and transferring their income to their precious who might remain at other places. It has often been examined and concurred that one of the basic hardships in obtaining riches by poor family units is the nonappearance or lack of the well-suited and proper sort of financial services. And the greatest hardship is lack of learning of fund. It is trusted that as much as cash or fund, its products, and services are should have been a piece of the financial inclusion, so is financial literacy.

On the off chance that a man does not understand what s/he needs cash for or how to utilize it, to what reason for existing are the products and services for that individual? More inquiries would take after (6 Ws and one H) like; who are the objective individuals? For what reason would it be a good idea for them to be instructed? What ought to be educated? (Would it be advisable for it to be financial literacy or instruction?) Where and When ought to be educated? Who ought to bestow the information/instruct? In what capacity should this information be spread? For quite a long time, India has been a "sparing" nation in a trade or out kind. In any case, these reserve funds won't have essentially been in any formal way [3].

Period	Process Phase	Steps Taken
1950-1970	Consolidation of Banking Sector and facilitation ofIndustryandTrade	- Co-operative Movement - Setting up of State Bank of India
1970-1990	Focus of Channelling of Credit to neglected sectors and weaker section	- Nationalisation of Banks - Lead Bank Scheme
1990-2005	Focus on empowerment the financialinstitutionsaspart Offinancial sectorreforms	- Regional Rural Banks - Service Area Approach
From2005	Financial Inclusion wasexplicitly made as a policy objective	- Self Help Groups - BCs& BFs concept

Table2: Financial Inclusion Measures by Government of India

The above table reflects an understanding and congenial policy environment in the country towards a steady financial inclusion.As the financial literacy need was being felt strongly towards a financial inclusion, empowerment and protection; several agencies started working together towards this goal.

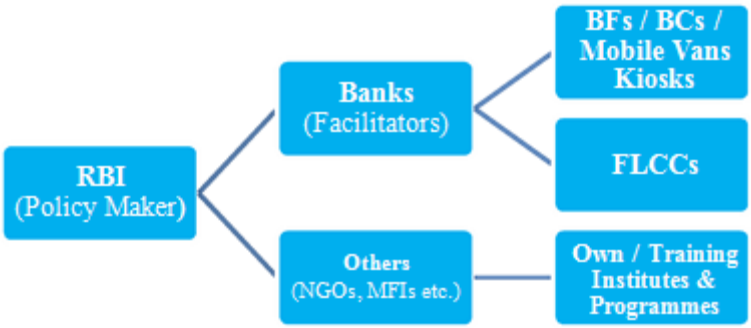

Figure 1: Various players and modes in the Financial Inclusion

In this 48 % 'No Savings' segment, only 20 % are urban and the rest are rural. There is a need to include these 'excluded' from savings people and to make them understand the importance of saving. As we look at the income *vis a vis*loans taken it is understood that most of the small loans are catered to, by relatives and friends as "hand loans" or from the money lenders and only those whose income is higher approach banks for their loan requirements [4].

3. FINANCIAL SERVICES FOR THE URBAN AND RURAL POOR: KEY ISSUES

The urban poor are not an identical representation of the rural poor. Microfinance as a professional poor financial service initially started with the Grameendemonstrates in Bangladesh and has been duplicated efficiently in a few rural zones in various nations over the globe. In India, the Self-Help Group Model (SHG) demonstrates has been received by NABARD to advance microfinance basically

in rural zones. Be that as it may, there has been little research or projects that address the requirements of the becoming urban poor in India. In different parts of the world, microfinance programs have been effective in focusing on the requirements of the urban poor. For example, Latin America has been fruitful in actualizing urban microfinance programs.

Focal America built up its particular indigenous techniques for microfinance. Gaining from these others settings, microfinance foundations, and different organizations in India should likewise start to address the necessities of the urban poor. To this end, an inside and our understanding of the financial conduct of the urban and rural poor is basic to serve them better. We have to consider the heterogeneity in action and needs of the urban poor versus the rural poor to offer them redid financial products. In the accompanying we layout some key contrasts in the living conditions and difficulties that face each of these groups one of the key factors that shape the lives of both the urban and rural poor is inner relocation. The rural poor relocate to adjacent urban towns and urban communities looking for better vocations [4].

Lack of work openings in rural India together with low pay urges the rural populace to relocate to urban communities. Since the rural poor can't afford to pay for an average lodging, they wind up remaining in ghettos which lack essential framework. Urban vagrants can be additionally characterized into two sub-groups: "changeless transients," a group of transients from rural regions that move to urban areas for all time; and "impermanent vagrants," people that drive from rural to urban focuses occasionally or at normal interims (Ruthven, 2001)[6]. Transient specialists all in all, however changeless vagrants particularly, can't get to fundamental banking services as they neglect to satisfy Know Your Customer (KYC) standards stipulated by the Reserve Bank of India for not having proof of address, notwithstanding when the bank office could be at a short distance remove from the vagrants' squatters. Indeed, even the nitty gritty record framework neglects to lessen these vagrants' burdens since those records generally remain lethargic or out of commission (Thyagarajan and Venkatesan, 2008)[7].

Failure to get to banking services represents a difficult issue in transmitting cash to the transients' homes in rural regions. This requires a technology answer for help transients bypass issues of separation. The Unique Identification Program started by the Government of India (GoI) is an estimable advance in such manner. Under this program, every single Indian native will be furnished a biometric ID card with a special number which fills in as a proof of character and addresses all finished India

and consequently it encourages profiting banking and different services that require satisfaction of KYC standards.

4. FINANCIAL LITERACY

Financial literacy can be comprehended as the capacity to know how cash functions in a typical course of action. Particularly it alludes to the arrangement of abilities and information that enables a person to settle on educated and compelling choices with the majority of their financial resources. Financial literacy is straightforwardly identified with the prosperity of an individual and society all in all, since it causes a person to deal with their own financial issues like funds, ventures, impose planning, retirement planning, and so on and empowers them to see how more cash can be produced and utilized as a part of more powerful and proficient way.

"People are considered financially literate on the off chance that they are competent and can show they have utilized the information they have learned. Financial literacy can't be measured specifically so intermediaries must be utilized. Literacy is gotten through pragmatic experience and dynamic combination of learning. As individuals become more literate, they become progressively more financially advanced, and it is conjectured this may likewise imply that an individual might be more competent".

The National Financial Educators Council characterizes financial literacy as: "Having the right stuff and information on financial issues to confidently make a viable move that best satisfies a person's close to home, family and global community objectives." Although the definitions given by various associations and creators fluctuate, some comparative components in each financial literacy's definition are found. Every meaning of the financial literacy has concentrated on the significance of having the financial ability and learning to settle on educated choices.

5. IMPORTANCE OF FINANCIAL LITERACY

In today's scenario, emerging as well as developed economies has started giving very much focus on the level of financial literacy of their people. The financial system plays a very significant role in the development of any nation. Financial ignorance carries significant costs. Consumers who fail to understand the concept of interest compounding spend more on transaction fees, run up bigger debts, and incur higher interest rates on loans. The consumers need to be financially literate to be able to understand the financial world and make well-informed decisions that will be profitable. The need for financial literacy in a country like India is because of:

- **Increase in Life Expectancy**

Now a day, the people become more conscious about their health and improvements in health care services has increased the life expectancy in India, which results in a longer time to spend in retirement. This will certainly increases the need of financial planning such as savings for post-retirement, investment decisions, expanded insurance plans and provision for unexpected future eventualities. Only knowing the importance of financial planning is not enough, the individual must know how they can make their financial planning in better way so that their purposes could be achieved. For doing better financial planning one must know the basic concepts of money management like computation of compound interest, risk diversification etc.

6. INNOVATIONS IN FINANCIAL PRODUCTS/ SERVICES AND TECHNOLOGICAL DEVELOPMENT

Liberalization, development in technology, deregulation and expanded level of financial consideration gives an extensive variety of financial items and administrations conveying through different channels in this way giving consumers more decisions to contribute their reserve funds. The accessible items are more complex consequently required a few components to be dealt with, for example, intrigue charged/got, expenses charged and level of hazard included and so forth. The more noteworthy open door accessible in financial items/administrations could just be used when one can have the better learning and should know about it. Since there is a more extensive scope of alternatives for reserve funds, one must have what it takes to break down which choice is better for them and which will help them in aggregating their riches [8].

The development in technology has changed the working of the financial markets and making the exchanges speedier. Financial literacy encourages the person to settle on their financial choices in more viable and proficient way along these lines helping in riches collection. Besides, because of innovative development now days relatively every bank gives their administrations the assistance of web keeping money and furthermore through different versatile applications along these lines giving straightforwardness in getting to the financial administrations. In any case, just knowing this isn't sufficient, one must have what it takes, and information of utilizing these applications must have the right stuff to recognize the authentic applications because these are not free from digital burglary. Henceforth, financial literacy becomes imperative.

7. BENEFITS FOR FINANCIAL INCLUSION

Financial inclusion benefits in two ways, one is profitability to the banker and the

latter is to serve the social cause by bringing the poor and the marginalized into financial loop. Financial inclusion is closely related to the development of other physical facilities and infrastructure in the state such as roads, electricity, dams and bridges. In the absence of above facilities, the demand for credit goes down and many business activities can't be performed. As a result, financial inclusion declines. Hawkins. P, (2010)[9] denotes that "government also is responsible to promote financial inclusion in marginalised rural sections." Financial inclusion entails the following benefits.

1. It helps the poor to avail a variety of saving and loan products which were far-reaching earlier
2. It facilitates effective allocation of productive resources
3. It reduces the "K" (cost of capital) to remit fund at low cost
4. It improves day-to-day management of finance through providing access to financial services
5. It ensures transfer of funds more safely and easily by using cheque, demand drafts or through internet banking
6. Provides social benefits including protection against losses, improved mechanisms for social transfers and economic linkages for rural development.

Further, financial inclusion is a passport for other financial products and services such as short term credit facilities, insurance and pension products as they necessarily require access to bank account. Financial Inclusion provides database for individual borrowers to capture loans, multiple lending and excess borrowings expressed in a report on "Issues and Concerns in the Micro Financial Institutions" by Shri Y H Malegam, (2011)[10]. The reason for poverty is not just insufficient income, but its lack of wide range of capabilities, security and ability to partake in economic and political system.

8. TECHNOLOGY IN ACHIEVING FINANCIAL INCLUSION IN RURAL INDIA

The planning commission, Govt. of India is anticipating accomplish a 'Quicker, Sustainable and More Inclusive Growth' in its way to deal with the twelfth five-year design (2012-2017). The arrangements defined by planning commission unmistakably encourage countrywide access to financial item and services at a reasonable cost, particularly to the poor and defenceless group. This will go about as an indispensable part to promote feasible and inclusive development. It is extremely hard to accomplish inclusive development without including a 140+Mn family unit of rural India under the composed financial system. These individuals don't approach the banking and financial services, and thus, they remain avoided from the skyline of economic development of the country.

The essential point of financial consideration is to give financial services to unserved individuals of the country in a reasonable, straightforward and impartial way to open its development potential. Financial incorporation ought to not exclusively be viewed as an altruistic action or an administrative compulsion yet also to an unexplored open door for business including a substantial segment of the populace. Financial consideration goes for the welfare of the general population as well as has a critical commercial judiciousness. We need to guarantee a proficient financial system for the underprivileged individuals to activate their family sparing and distributing them adequately to the developing credit need of the country. Barely any financial institutions like banks, microfinance organizations and so forth are giving their services in rural regions concentrating on incorporating them into the composed financial system. In any case, a large number of them are as yet anticipated. There is likewise a noteworthy uniqueness among the general population of rural and urban territory in benefiting the services of the financial system. One of the real purposes behind the perception above could be ascribed to the financial illiteracy of the rural individuals. In rural India just 33% of populace is incorporated into the formal financial system and circumstance becomes more extreme if there should arise an occurrence of lower income gather where just 26% of individuals shape a piece of financial development in the country, while 41% of urban India populace and 34% of lower income assemble in urban India is taking an interest in the financial system, which is comparatively superior to rural India. Along these lines, there is a need to support financial incorporation programs, particularly in rural zone.

9. CONCLUSION

Financial inclusion is an extraordinary advance to lighten poverty in India. Be that as it may, to accomplish this, the government ought to give a less point of view condition in which banks are allowed to seek after the advancements important to achieve low-income consumers and still make a benefit. Financial specialist organizations ought to take in more of the consumers and new business models to contact them. The creator of this paper talks about the apropos issues of financial inclusion comprising of smaller and more extensive angle, the significance of the financial literacy and the schemes and policies presented by the Government with the nitty gritty point of view of the advantages and disadvantages and steps taken to enhance the scope of financial and banking services at grassroots level. Financial inclusion is the street that India needs to the movement toward becoming a global player. Financial access will draw in global market players to our country and

that will bring about expanding work and business openings.

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