

An Introspection of the Impact of Indian Financial Literacy Programmes on Financial Inclusion

Mrs. Ratna Srinivasan

Department of Social Sciences, St. Mary's College, India

Abstract: *My flight was landing at the Santa Cruz Airport, Mumbai. I could see the glitter of the sun's rays on the tin roofs of the biggest slum in Asia, Dharavi on the one side and the skyscrapers on the other side. This set me thinking as to why even after more than six decades of Indian planning the country is still facing abject poverty and inequalities. Egalitarian economy and inclusive growth have thus been a faraway dream. In order to attain inclusive growth social and financial inclusion becomes imperative. Financial inclusion can be attained by taking financial services to the doorstep of the excluded group. This would reap results only when there are financial education and financial literacy. This paper is an attempt to introspect the effect of the financial literacy programmes on financial inclusion.*

The study aims at analyzing the structural framework of financial exclusion. It explores the impact of financial literacy on financial inclusion. It seeks reason out the causes responsible for the slow percolation of the growth benefits to the excluded group while looking for appropriate solutions.

Keywords: *Egalitarian Economy, Financial Exclusion, Financial Inclusion, Financial Literacy, Inclusive Growth and Social Inclusion.*

I. Introduction

My flight was landing at the Santa Cruz Airport, Mumbai. I could see the glitter of the sun's rays on the tin roofs of the biggest slum in Asia, Dharavi on the one side and the skyscrapers on the other side. This set me thinking as to why even after more than six decades of Indian planning the country is still facing abject poverty and inequalities. The planning of the visionaries in yesteryears neither benefited the poor nor was it rewarding for the economically and socially backward classes of the country. Much needs to be done to create an egalitarian economy and accomplish inclusive growth. In order to achieve inclusive growth, social and financial inclusion becomes imperative. Financial inclusion can be attained by taking financial products to the doorstep of the excluded group. This would be rewarding only when there is awareness regarding the benefits of financial inclusion. Awareness among the excluded can be brought about only through the spread of financial education and literacy.

1.1 Literature Survey

A survey of the literature reveals that there is no common definition of financial exclusion or inclusion. Broadly speaking, financial exclusion is regarded as the failure of individuals and a few social groups from gaining access to the formal financial system. People living in remote and rural areas are more likely to be financially excluded. (Leyshon & Thrift, 1995) Financial inclusion of the excluded group becomes necessary for inclusive growth. Financial inclusion may be defined as the process of ensuring access to financial services at an affordable cost by the vulnerable groups (Rangarajan, 2000). Financial literacy is essential for financial inclusion as the consumer needs to understand the financial concept to make profitable decisions (Lavanya, 2015) But more than 76 percent Indian adults lack basic financial literacy and they do not understand the most basic and key financial concepts as per the Standard & Poor Survey (live mint, 2017) It is apparent that individuals with the higher financial literacy will have higher awareness level for all financial products which may be bank fixed deposits, savings account, public provident fund, mutual funds, stock market investments and bonds (Puneet, 2014) Financial access can be measured through three major parameters namely financial literacy, financial inclusion, and financial transaction. Financial literacy gauges the level of awareness of financial services. The Financial inclusion measures, the proximity to financial service outlets. Financial transaction takes stock of level of the usage. (Mahajan and Laskar, 2009)

1.2 Objectives

- Analyse the structural framework responsible for financial exclusion
- Elucidate the efforts of the stakeholders towards financial literacy and inclusion up to 2016
- Study the impact of financial literacy programmes on financial inclusion

- Reason out the causes responsible for the slow percolation of the growth benefits to the excluded class.
- Explore and suggest appropriate solutions

1.3 Methodology

The present study is exploratory and descriptive in nature. The study is proposed to be conducted using secondary data from websites, documents, journals, RBI bulletin, reports and research papers.

1.4 Limitation and Further Study

India is still in the nascent state of procuring data in respect of financial literacy, education, and financial inclusion. Correct picture of the state of financial inclusion will evolve only when ample statistical data is collected efficiently.

There is ample scope for further study. A more rigorous study can be made in the areas of insurance, pensions and risk management. Delivery mechanism and parameters for measurement of financial inclusion also require attention.

II. Structural Framework Responsible for Financial Exclusion

Financial exclusion can be expressed as the inaccessibility by certain segments of the society to appropriate, low-cost, just and safe financial products and services from the mainstream providers. The causes for financial exclusion are many. Poor information, low awareness, financial illiteracy have been the key personal factors detrimental to financial inclusion. Ignorance regarding financial products on the one hand and overconfidence among the educated regarding their financial skills are both dangerous. Lack of regular employment, low income, and poor savings further aggravates and deepens the problem. A Significant number of villages in our country are unbanked even today. Geographical remoteness and location constraints lead to poor branch expansion and physical exclusion. Real and perceived risks in lending are yet another hurdle. This invariably results in urban bias in branch expansion and low density of banks in the rural areas contributing towards financial exclusion. Cultural barriers contribute towards financial exclusion. Women who form the disadvantaged group in rural areas face cultural blockades and fail to secure access to formal financial institutions. Psychological issues lead to mistrust of financial institutions and heavy dependency on non-institutional sources of borrowing.

III. Financial Literacy for Financial Inclusion

The financial services provided by the country become meaningful only if people are aware of the financial options. When ignorance prevails they will neither be able to grasp the benefits nor foresee the financial risks. Financial literacy stimulates the demand side and makes people aware of what they should and can demand for financial inclusion. Financial literacy is thus imperative for financial inclusion and thereby to inclusive growth. Atkinson and Messy (2012) considered three elements for financial literacy. Knowledge which emphasizes on basic financial concepts, financial behavior, and attitude. In pursuit of these three elements the Government of India, RBI, and other stakeholders structured many financial literacy programmes. The prime challenge faced while designing has been customizing financial programmes to suit the needs of different target groups. The target groups are varied and many from farmers to entrepreneurs, rural to urban and school children to senior citizens. A standardized method suiting all scenarios and target groups for the spread of financial literacy may seem an impossible task. Depending on the target groups various initiatives have been taken by the stakeholders in their pursuit of financial literacy. These programmes focus on basic financial concepts, insurance, risk management, and pensions. Presentations, pamphlets, brochures, films were some of the methods adopted.

3.1 Initiative of Market Players towards Financial Literacy

- Project Financial Literacy is the initiative of RBI to spread awareness on fundamental banking concepts
- Securities Exchange Board of India aimed at imparting knowledge on fundamental concepts of finance.
- Insurance Regulatory and Development Authority organized programmes on financial awareness and the rights and duties of the policyholders
- Pension Fund Regulatory and Development Authority is all set to bring pension awareness in India by handling pension-related issues
- Commercial Banks have played a major role in creating awareness through Financial Literacy and Counseling Centers on financial literacy.
- Other Market Players like NABARD, National Stock Exchange, Broking Houses and Mutual Funds have made their contributions in the field of financial literacy and inclusion.

IV. Measures to Access Financial Services for Financial Inclusion

Financial Inclusion is a process by which financial services are made available to all the people. It is a conscious attempt to bring the un-banked sections of the population into the fold of banking. In a narrow sense, it may be achieved by offering any one of the financial services. In a broader way, it provides a set of banking services. Eventually, financial inclusion promotes banking habit, develops the culture of saving and also enables efficient payment mechanism thereby strengthening the financial structure. These factors motivated the government of India and RBI to adopt a number of measures to intensify their drive towards financial inclusion.

The major milestones in the financial sector of India began in the yesteryears with the nationalization of RBI and State Bank of India. This was followed by the nationalization of commercial banks in two phases in 1969 and 1980. The adoption of the Lead Bank Scheme and the establishment of Regional Rural Bank further strengthened the financial structure. The coming up of the Microfinance Institutions and Self Help Groups with bank linkage were intended to help the downtrodden.

The emergence of the words “Financial Literacy” and “Financial Inclusion” necessitated the adoption of a more rigorous route. In order to reach out to the underprivileged and for financial inclusion branch expansion became the order of the day. RBI emphasized on 25 percent of the branches to be opened in unbanked areas. The banks were instructed to provide Basic Savings Deposit Accounts for all individuals with zero minimum balance or no-frill accounts. They were further instructed to arrange ATM Card/Debit Card and OD facility to meet emergencies. Entrepreneur’s credit was streamlined with the introduction of Kissan Credit Cards. Know Your Customer norms were simplified. Easy access to financial services was enabled through pre-paid cards and biometric for ATM. Free environment evolved with liberalized policy and liberalized branch expansion. In 2008 the Government established two funds each with \$ 125 million. A Financial Inclusion Fund towards promotional and developmental work and Financial Inclusion Technology Fund which would enable innovations in technology. Jan Dhan Yojana and Mobile Banking have played a humongous role in bringing a vast majority of the excluded into the mainstream banking.

V. Impact of Financial Literacy on Financial Inclusion

Financial literacy is a component of financial inclusion and a necessary condition for bringing an enormous section of the excluded population into the fold of the financial sector. The government of India gave a strong backing to financial literacy. This responsibility was shouldered well by the stakeholders with the government taking a lead. The programmes were well structured. They identified the groups to be targeted which included the underprivileged, women, differently-abled the illiterates and the low-income group at the bottom of the pyramid. School and college students were also a part of the targeted group. The programmes were implemented for the targeted group in the remote and unbanked areas. Reserve Bank of India chose 160 remote unbanked villages for achieving 100 percent financial inclusions with each household having at least one credit facility along with effective grievance redressal mechanism and awareness. It was followed by a right focus on the beneficiaries with tailor-made programmes befitting their circumstances. The programmes were well monitored which enabled overcoming the bottlenecks. Measurement of the results became essential since what cannot be measured cannot be improved. As per the findings of Standard and Poor, there is a wide variation in financial literacy globally. The literacy rates are relatively higher in developed economies when compared to the developing economies. There is a variation even among the BRIC Nations

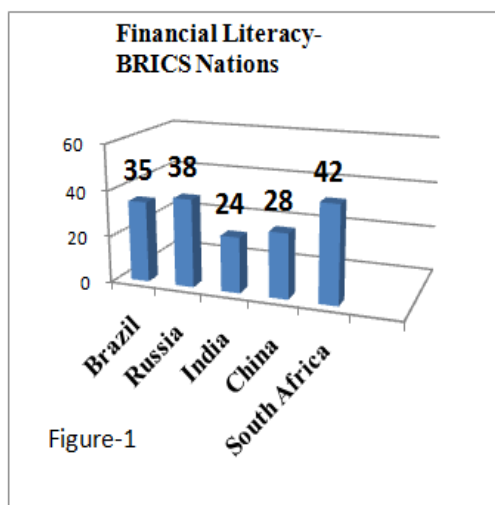


Figure-1

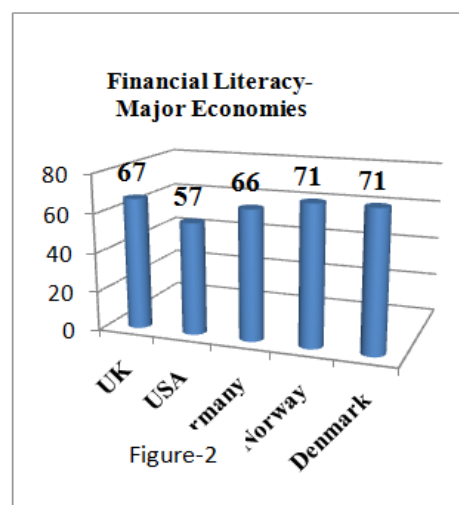


Figure-2

Source: Standard and Poor Survey

The financial literacy among the more advanced economies is above fifty percent says Fig.2. Among the BRICS Nations, it is less than fifty percent is what Fig. 1says. India shows the lowest financial literacy rate among BRICS Nations at 24 percent.Nonetheless, it is making rapid strides in achieving financial literacy. A survey by RBIrevealed that 718 Financial Literacy Centres have educated 2.2 million people from April 2012 to March 2013 (Kamboj, 2014). The path towards financial literacy seems encouraging. There are two approaches for measuring financial inclusion. The first and more popular method is to calculate bank accounts (or bank branches) per population (adults or households) (Beck and De la Torre, 2006). This makes branch expansion as one of the parameters of financial inclusion.

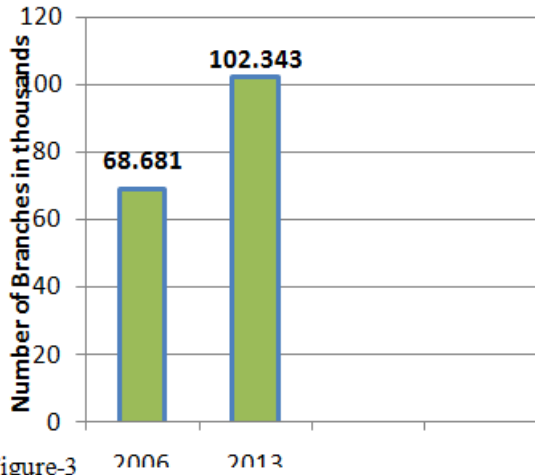


Figure-3

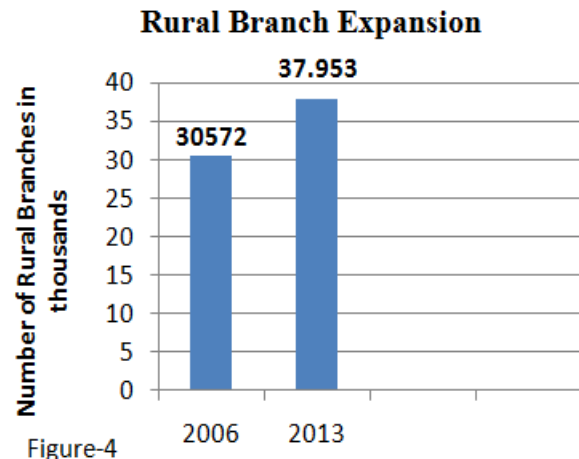


Figure-4

Source: Basic Statistical Returns RBI and Department of Financial Services, GOI

Fig.3 shows the branch expansion of scheduled of commercial banks in real terms. It shows that there has been a commendable increase in the number of branches of scheduled commercial banks from 68,681 in 2006 to 1,02,343in 2013 due to the untiring efforts of the Reserve Bank of India. At the same time, Fig.4 shows that there has been an expansion of banks in the rural areas. It shows that in real terms, it increased from 30,572 to 37953. The second approach is to survey households in a given area. It is costly and less often used. It necessitates a study because a mere penetration of banks and branches may not lead to financial inclusion. It will be fruitful only when banking services are availed.

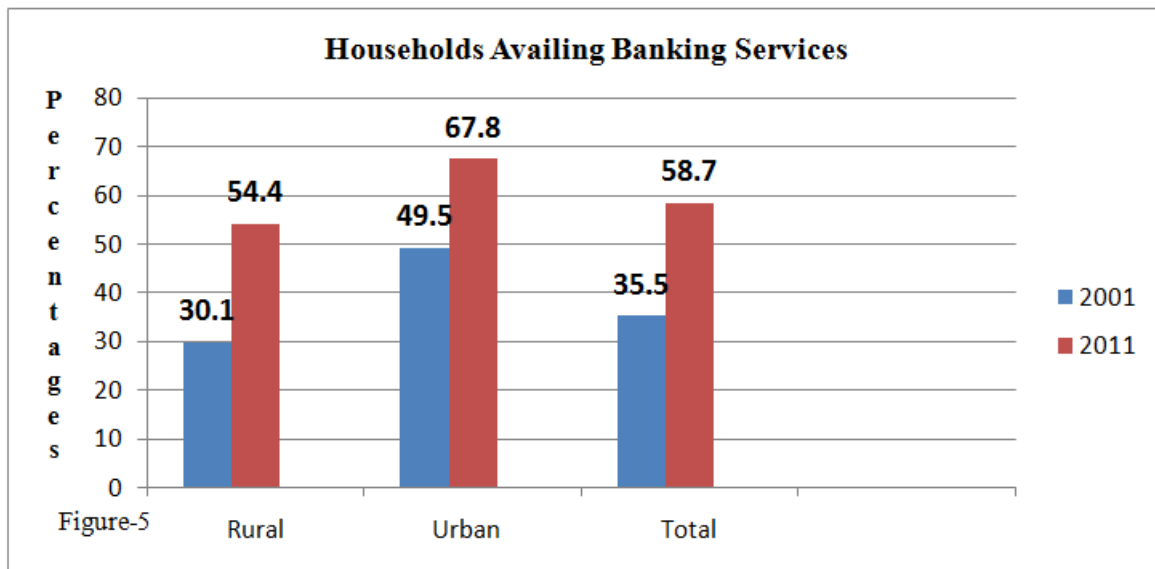


Figure-5

Source: Department of Financial Services, GOI

Fig.5 shows that there is an increase in the households availing banking services in both rural and urban areas individually. Between 2001 and 2011 the households availing banking services has increased approximately by 23.2 percent.

The Government of India has adopted a bank-led model for financial inclusion in India. Banking parameters help in measuring the intensity of financial inclusion. Credit Rating Information Services of India Limited

(CRISIL) a global analytical company which provides ratings, in 2013, published a comprehensive financial inclusion index. For constructing the index, CRISIL identified three critical parameters of banking services namely

- a. Branch Penetration as the number of branches per one lakh population
- b. Deposit Penetration as number of saving deposit accounts per one lakh population
- c. Credit Penetration as the average of three measures namely number of loan accounts, number of small borrower loan accounts and number of agriculture advances per one lakh population each.

The parameter of the Financial Inclusion Plan of India and CRISIL Index coincides. Hence the CRISIL Index can be taken as an indicator of Financial Inclusion.

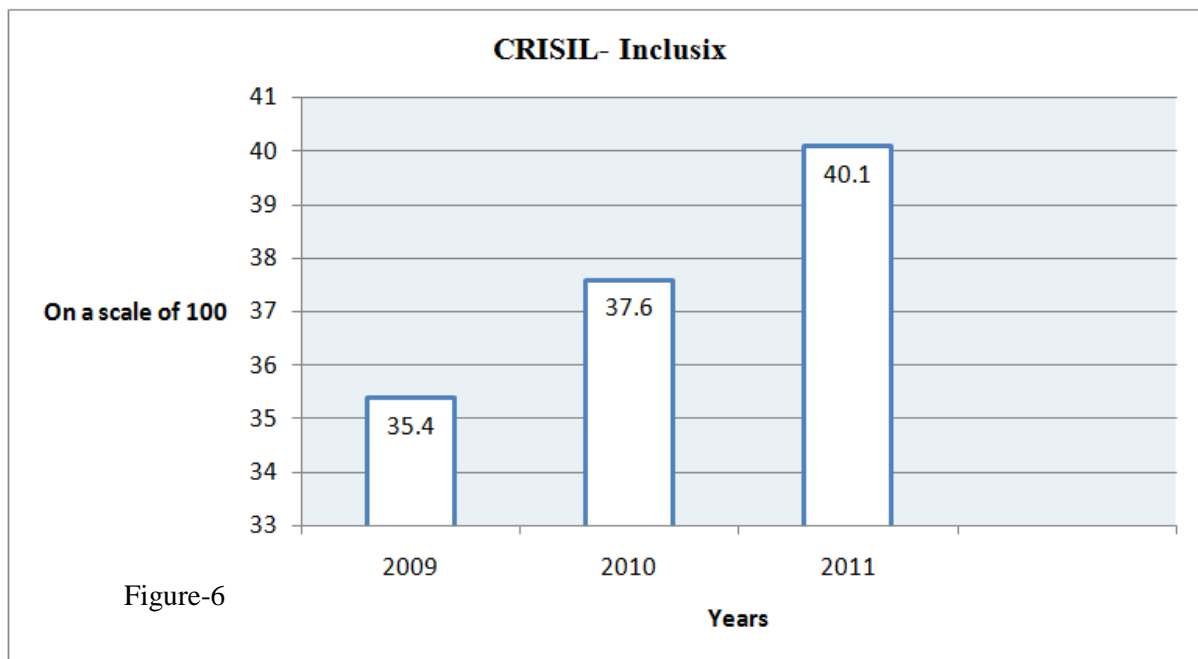


Figure-6

Fig.6 indicates that there is an overall improvement in the financial inclusion in India from 35.4% in 2009 to 40.1% in 2011. As per the standards, a score in the range of 25% to 45% shows that efforts towards financial inclusion are below average while a range of 40.15% to 55% as above average. The financial inclusion parameters of India show an upward trend. Within a short span of three years, the ratings of the country improved from below to above average. It can be inferred that the financial literacy programmes have had a positive impact on financial inclusion.

VI. Causes Responsible for the Slow Percolation of the Literacy Programme Benefits

The rationality behind financial inclusion is that if poor people have banking options can save and, when required, avail themselves of loans and access capital for business ventures at reasonable rates. Financial inclusion policies have been implemented with this intention. The success rate of these policies is quite limited as research shows that not all financial literacy programs are effective in improving financial behavior and thereby financial inclusion. Only a few programs are successful in bringing about the desired outcome and results. The success of the programme depends on crucial variables associated with presentation, training, and grasping.

6.1 Demand Side Challenges

The disadvantaged social groups and people are far too many and the average literacy levels are not only low but vary from region to region. This makes the task of reaching out to them a gigantic task. The low level of financial literacy hampers their judgment of the financial product and acts like a stumbling block in comparing the benefits of the products. Their income levels are low and uncertain and hence a high fee and minimum balance becomes a personal barrier. Social barriers and linguistic barriers are among the prominent challenges. Technological barriers are in the form of hesitation to use ATM's, mobile banking and net banking.

6.2 Supply Side Drawbacks

The geographical location of many places in the country is unconnected by roads and hence untraveled. This results in absence of banks and their promiscuity which become two major challenges on the supply side.

The rural population has a personal touch with the moneylender and prefers approaching them to the bankers who have a professional attitude. Administrative requirements like identity proof and high transaction cost stop them from approaching the banks.

6.3 Other Challenges

A more serious approach is required to enhance financial literacy and financial inclusion. The delivery mechanism is poor, devoid of discipline and will to deliver. The country has a long way to go in developing the right technology that will reach the masses.

High information barriers, low awareness, limited literacy, lack of priorities, corruption, superficial solutions implemented with scant interest are the other general factors which are dampening the efforts of the government.

VII. Suggestions

The loopholes on both the demand and supply side should be plugged. Budgetary allocations towards encouraging financial literacy and education should be enhanced as per the requirement. The funds allocated by the government for improvement in technology should be utilized effectively. Coordination among the stakeholders is mandatory for the success of financial inclusion. The delivery mechanism should be strengthened with more reliance on business correspondents and facilitators who are in direct contact with the customers. A think tank for accepting innovative ideas should be nurtured. Financial Inclusion should be regarded as a business prospect which can be utilized by selecting and targeting untapped and unorganized market (Pawan & Dang, 2013). In a broad sense, financial inclusion should be considered a prerequisite for empowerment, employment, economic growth, poverty reduction, and social cohesion' (NABARD, 2009).

VIII. Conclusion

Financial inclusion in India has failed to reach the expected levels. The government undoubtedly has been playing a pivotal role for the financially excluded. The effort of the government is coupled with the efforts of all the stakeholders. It is apparent that financial literacy has been feeding the demand side by promoting awareness among the people regarding the needs and benefits of financial services offered by banks and other institutions. Financial inclusion has been working from the supply side by providing access to various financial services. All these efforts apart it may take a considerable time before these two strategies ultimately promote greater financial stability.

References

- [1]. Lehson A & Thrift. Geographies of Financial Exclusion- Financial Abandonment in Britain and the US. *Transactions of the Institute of British Geographers, New Series*, 20(3), 1995. 312-341.
- [2]. Rangarajan. (2008). *The Final Report on Financial Inclusion*. Retrieved October 25, 2017, from http://nabard.org/pdf/report_financial/Full%20Report.pdf.
- [3]. Lavanya, R. Financial Literacy the Indian Story. *World Journal of Social Sciences*, 5(3), 2015, 45-57.
- [4]. Survey, Standard & Poor (2014). <http://www.livemint.com/Money/219bZsVo7eempRU9yLyPAL/SP-survey-More-than-70-Indians-farebadly-in-financial-li.html>. Retrieved September 21, 2017
- [5]. Puneet, B. Relationship between Financial Literacy and Investment Behavior of Salaried Individuals. *Journal of Business Management and Social Sciences Research (JBM&SSR)*, 3(5), 2014, 82-87.
- [6]. Laskar & Mahajan. Measuring Financial Access - Some Lessons for India. *The Journal of Indian Institute of Banking and Finance*. July-September, 2009, 34-44
- [7]. Atkinson & Messy, (2012). *OECD Working Papers on Finance, Insurance and Private Pension, No.15*. Retrieved October 24, 2017, from <http://dx.doi.org/10.1787/5k9cfs90fr4-en>.
- [8]. Kamboj. *Current Financial Literacy in India, International Journal of Entrepreneurship and Small Business Management.*, 1(1), 2014, 61-68
- [9]. Beck, T. and De la Torre, A. (2006), *The Basic Analytics of Access to Financial Services*, Policy Research Working Paper 4026, Washington, DC: World Bank.
- [10]. Pawan & Dangi. *Current Situation of Financial Inclusion in India and its future Vision. International Journal of Management and Social Science Research*, 2(8), 2014, 155-166.
- [11]. NABARD. (2009). *Financial Inclusion: an overview*. (Nabard, Producer) Retrieved October 26, 2017, from <http://www.nabard.org/pdf/>.