

Analysis of the Level of Financial Literacy and Financial Inclusion among Rural Households in Krishna District: Andhra Pradesh

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Abstract: *Financial Literacy is the base and primary step for financial inclusion. 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 Shri Pranab Mukherjee, (2013) financial literacy refers "Financial literacy and education plays a vital role in financial inclusion, inclusive growth and sustainable prosperity". It ensures that financial services are to be reached to weaker sections or unreached sections of the society. All the initiatives should aim at achieving financial inclusion through financial literacy.*

For improving awareness of financial literacy, several schemes were implemented by the Reserve Banking of India, the Security and Exchange Board of India, Insurance Regulatory Development Authority, Pension Fund Regulatory and Development Authority (PFRADA). These bodies are engaged in various financial education programs in improving financial literacy thereby achieving financial inclusion. Various strategies are also being implemented for the improvement of financial literacy in India. These include introducing financial education in school curriculums especially government schools in rural areas, and financial-literacy training programs set up by commercial banks in urban and semi-urban areas. Village adoption programs were also established by educational institutions in rural areas. There is a strong concern for banks to arrange regular campaign through media and road shows to spread awareness about financial inclusion and financial literacy. The main objective of this study is to know the level of financial literacy among rural households in Krishna District, Andhra Pradesh and banking penetration in selected mandals.

Key words: *Financial inclusion, financial literacy, index of financial inclusion, banking population*

I. Introduction

Financial Literacy In India

In developing economies like India, more than 60 per cent of the population who lives in rural areas should ensure adequate access to financial products and services. By the end of March 2013, it was found that 59 percent of the adults have bank accounts, where as in rural areas it is 39 per cent. For this, the Financial Stability and Development Council (FSDC), led by the Finance Ministries mandated to focus on financial inclusion and financial literacy.

Financial Literacy Centers were established in June 2012 by the Reserve Bank of India. As per new guidelines of the RBI, all commercial banks should conduct awareness camp at least once in a month. "Accordingly, by the end of March 2013, 718 Financial Literacy Centers have been set up and 2.2 million people have been educated through awareness camp" (Richa Aggarwal, 2014). In the same way apex bodies, viz., the RBI, the SEBI and IRDA committed to the mission "to create a financially aware and empowered India" to improve financial literacy thereby achieving financial inclusion in India.

Financial Literacy In Krishna District

Three financial literacy centres were set up in Krishna District, Andhra Pradesh. The first centre is in Machilipatnam, the second centre is located in Guduwada under the guidelines of Sathagiri Grameena Bank and the third centre was located in Vijayawada, Lead Manager office, at Indian Bank Zonal Office. The fourth Centre is proposed in Nuziveedu.

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. The RBI (2008) denotes "well-functioning of financial system to create identical opportunity, integrate economically and socially excluded people so as to actively contribute to development and protect themselves against economic shocks." 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)** denotes that "government also is responsible to promote financial inclusion in marginalised rural sections." Financial inclusion entails the following benefits.

- i. It helps the poor to avail a variety of saving and loan products which were far-reaching earlier.
- ii. It facilitates effective allocation of productive resources.
- iii. It reduces the 'K' (cost of capital) to remit fund at low cost.
- iv. It improves day-to-day management of finance through providing access to financial services.
- v. It ensures transfer of funds more safely and easily by using cheque, demand drafts or through internet banking.
- vi. 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)**. **Amartyan Sen, (2000)** persuasively argued that 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.

II. Objectives Of Financial Inclusion

For sustainable development, growth of an economy and to attain objectives of productive and competitive economy, there is a need for robust and strong financial system. India has the largest rural population, so an innovative technique has to be employed to promote banking habits. Financial inclusion is an innovative term in promoting banking habits (**Richa Aggarwal, 2014**). Financial inclusion emphasizes various dimensions including availability, accessibility and usage of financial system. It helps to improve an overall inclusive financial system.

The main objective of financial inclusion is to ensure ease of access, availability and usage of financial system for all individuals of an economy. Finally, expansion of the scope of organized financial system is within its range of people with low income. Financial inclusion has served as a guide for policy and regulatory approaches with the objectives of providing innovative, adequate, low-cost financial delivery and various banking insurance services at reasonably priced and quality of financial services – G20 (Group of Twenty).

Approaches Of Financial Inclusion: According to C. Rangarajan the following approaches in the system of financial inclusion are;

- i. To provide a need-based credit facility to the marginal and sub-marginal farmers.
- ii. To open need-based branches across the country.
- iii. To open the branches based on population per branch is more than the national average of commercial banks.
- iv. To simplify the procedure for granting of loans to small borrowers.
- v. To strengthen Self Help Group-Bank Linkage Programme (SHBLP) and facilitation of business correspondent models need to be effectively implemented.

Objectives Of The Study: The research aims to cover the following objectives

- To know the level of financial literacy among rural households in Krishna District, Andhra Pradesh and
- To examine banking population in selected mandals.

III. Methodology Of The Study

It is planned to select 25 Mandals of Krishna district by giving representation to all the 25 mandal belts of Krishna district, viz. mandal villages and so on. Taking population as a base, 25 mandals are selected for the survey. For each mandal, 30 respondents are approached as these mandals have the highest population in their respective belts. Target populations for the study in Krishna District are households of agricultural daily wage earners. Total population of Krishna District, Andhra Pradesh was 45, 17, 398 as per the census of 2011, density of population (people per square km) is 518. Total mandals and total villages are 49 and 985 respectively.

Status Of Index Of Financial Inclusion In Selected Mandals

Banking penetration: An inclusive financial system should penetrate widely among its users. In the context of index of financial inclusion Table:01 can be calculated as mandal wise 'banked' population. The total number of accounts i.e., Basic Savings Bank Deposit Account (BSBDA) in rural areas of Krishna district were

1, 40,000. Index of financial inclusion can be calculated as number of accounts mandal wise to total accounts in rural areas, Krishna District as indicator of this dimension.

Mandal Level

- The top five scoring mandals are G Konduru, Agirapalli, Nandiwada, and Unguturu.
- The bottom five mandals are Gantasala, Pedana, Vatchavai, Kaikaluru, and Guduru.
- Highest disparity among the Mandals - G Konduru, Agirapalli, Nandiwada, Unguturu and Gantasala.

Table: 02 analyses the level of knowledge for using bank account in Krishna District during 2014-15. Based on survey, out of 25 mandals Gampalagudem, Nandiwada, Unguturu, Jaggaiahpet and Kaikaluru take first five places which have sufficient knowledge in depositing money in bank and granting of loans by the banker to the account holder. In Agency functions highest ranking mandals are G. Konduru, Guduru, Ibrahimpatnam, and Mandavalli. Regarding opinions on Technology services and in-time grievance handling by the banker ranking mandals are Jaggayapet and Mandavalli. Moreover, 80% of mandal village respondents should not know about technological services and intimate grievance handling in banks because most of them are illiterates and not aware of it. Bankers should take initiative regarding the above issues in villages.

Table: 01 district-Wise (Selected Mandals) Index Of Financial Inclusion On Select Indicators Of Financial Inclusion

Sl. No	Name of the Mandal	Total A/Cs out of 30 sample size	Index (Total accounts/1.40 lac)X100	Rank
(1)	(2)	(3)	(4)	(5)
1	G. Kondurur	29	0.0207	1
2	Ibrahimpatnam	25	0.0178	5
3	Kankipadu	24	0.0171	6
4	Agiripalli	29	0.0207	1
5	Gudlavalleru	25	0.0179	5
6	Pedana	20	0.0143	9
7	Pamaru	28	0.02	2
8	Gudur	28	0.02	2
9	Mudeneipalli	23	0.0164	7
10	Undavalli	27	0.0193	3
11	Bantumilli	25	0.0179	5
12	Jaggaiah pet	28	0.02	2
13	Nandigama	26	0.0186	4
14	Tiruvur	25	0.0179	5
15	Gampalagudem	28	0.02	2
16	Bapulapadu	28	0.02	2
17	Verrullapadu	27	0.0193	3
18	Gantasala	16	0.0114	10
19	Chandarlapadu	25	0.0179	5
20	Nandiwada	29	0.0207	1
21	Pamidimukkala	27	0.0193	3
22	Kaikaluru	23	0.0164	7
23	Kruthivennuru	28	0.02	2
24	Unguturu	29	0.0207	1
25	Vatchavai	21	0.015	8

Sources: Mandal Villages in Krishna District, Andhra Pradesh.

Table: 02 Households Level Of Knowledge For Using The Banking Services In Krishna District: Andhra Pradesh

Sl. No	Mandal name	Know the deposit money in the bank				Granting loans by the banker to the account holder				Payment of interest dividend and insurance premium (agency services) delivered by banker				Technological like fund transfer, online banking services, mobile banking offered by the banker				In time grievances handling by the banker			
		Accepted	Total Respondents	%	Rank	Accepted	Total Respondents	%	Rank	Accepted	Total Respondents	%	Rank	Accepted	Total Respondents	%	Rank	Accepted	Total Respondents	%	Rank
1	G Konduru	29	30	96.7	3	26	30	86.7	7	23	30	76.7	1	16	30	53.3	6	19	30	63.3	11
2	Ibrahimpatnam	21	27	77.8	1	21	27	77.8	1	17	27	63.0	3	18	27	66.7	1	21	27	77.8	8
3	Kankipadu	22	24	91.7	8	23	24	54.2	2	14	24	41.7	2	14	24	41.7	2	0	24	0.0	16
4	Agripalli	17	27	63.0	3	19	27	70.4	1	11	27	40.7	7	15	27	55.6	5	19	27	70.4	10
5	Gudlavalleru	25	25	100.0	1	9	25	36.0	2	0	25	0.0	2	3	25	4.0	2	0	25	0.0	16
6	Pedana	9	19	47.4	1	9	19	47.4	2	5	19	26.3	1	7	19	36.8	1	9	19	47.4	12
7	Pamaru	28	28	100.0	1	1	28	42.9	2	1	28	4.5	2	0	28	0.0	2	0	28	0.0	16
8	Guduru	23	25	92.0	7	2	28	82.1	9	1	28	67.9	2	16	28	57.1	4	2	28	75.0	9
9	Mudenealli	20	20	100.0	1	1	20	70.0	1	6	20	30.0	8	9	20	45.0	9	1	20	5.0	15
10	Mundavali	25	27	92.6	1	2	27	92.6	6	1	27	55.6	4	1	27	55.6	5	2	27	92.6	5
11	Bantumilli	25	25	100.0	1	1	25	68.0	1	2	25	8.0	1	2	25	8.0	2	0	25	0.0	16
12	Jaggaihpeta	22	23	95.7	5	2	23	95.7	2	1	23	43.0	6	1	23	65.2	2	2	23	95.7	3
13	Nandigama	18	24	75.0	1	1	24	70.8	1	6	24	25.0	1	1	24	58.3	3	1	24	75.0	9
14	Thiruvuru	25	25	100.0	1	1	25	64.0	1	8	25	32.0	9	1	25	40.0	1	0	25	0.0	16
15	Gampalagudem	27	28	96.4	4	2	28	96.4	1	7	28	25.0	1	1	28	46.4	7	2	28	96.4	2
16	Bapulapadu	25	25	100.0	1	1	25	72.0	1	5	25	20.0	1	3	25	25.0	1	0	25	0.0	16
17	Veerulapadu	20	24	83.3	1	1	24	76.0	1	2	24	8.3	1	1	24	41.7	1	2	24	83.3	7
18	Gantasala	17	17	100.0	1	1	17	94.1	5	4	17	23.5	1	1	17	5.9	2	1	17	5.9	14
19	Chandrapadu	21	22	95.5	6	2	22	95.5	3	7	22	31.8	1	8	22	36.4	1	2	22	95.5	4
20	Nandiwada	27	28	96.4	4	2	28	96.4	1	1	28	3.6	2	9	28	32.1	1	2	28	96.4	2
21	Pamidimalkala	27	27	100.0	1	2	27	77.8	1	8	27	29.6	1	8	27	29.6	1	0	27	0.0	16
22	Kaikaluru	19	19	100.0	1	1	19	84.2	8	2	19	10.5	1	2	19	10.5	1	0	19	0.0	16
23	Kruthivenuru	22	26	84.6	9	2	26	76.9	1	2	26	7.7	1	1	26	42.3	1	2	26	88.5	6
24	Unguturu	29	30	96.7	2	2	30	93.3	4	3	30	10.0	1	1	30	36.7	1	3	30	10.0	1
25	Vatchavai	4	30	46.7	1	1	30	53.3	1	1	30	60.0	5	1	30	60.0	8	1	30	46.7	1

Sources: Survey in mandal villages in Krishna District, Andhra Pradesh

It is also found from the above analysis Table: 02 some of the mandals are low ranked because of lack of financial education, overall understanding of banking usage systems, lack of awareness programmes, initiatives that have not been taken by commercial banks in villages, lack of money management discussions with family members, and lack of discussions or meetings with bankers on every Saturday.

IV. Conclusion

Financial literacy is a key factor to financial inclusion and a necessary pre-condition for success in the financial inclusion drive. Both financial literacy and inclusion are treated as twin pillars. This concept focuses on key lessons for financial decision-making in the wake of that crisis, exploring how financial literacy can enhance peoples' skills and abilities to make more informed economic choices. 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.

Acknowledgement

I am thankful to the Director, ICSSR, New Delhi for giving me an opportunity to take up research project entitled "A Study on Financial Inclusion in Krishna District: Andhra Pradesh" during 2014-15. I owe an irredeemable debt of gratitude to the ICSSR for continuous monetary support throughout the period of this study.

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