
Enhancing Financial Inclusion in India through Financial Literacy – A Study

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ABSTRACT

The Financial Inclusion is becoming an alarming thing across the globe in regards to the sustainable economy. The banking industry in any nation will flourish only if their products and service are availed by all sorts of people in the country. And it is also important to understand, that there is a strong relationship between the banking sector and the socio-economic development of the country. This is the reason the government is taking up so many strategic programmes and schemes to create financial inclusion in the nation. In spite of many distinct initiatives, it is true that India has not achieved the complete financial inclusion. Hence, it is the primary need to study the challenges in achieving financial inclusion. The present study is empirical in nature. The study encompasses most of the variables that helps to study the awareness, knowledge and usage of formal financial products and services. The study covers the respondents from Kancheepuram district of Tamil Nadu state in India. This research work is much important to provide valid suggestions to the banking sector to enhance their functional role in attaining effective financial inclusion in the country.

Key words: *Banking Industry, Financial Inclusion, Formal financial products and services, Strategic programmes and schemes.*

INTRODUCTION

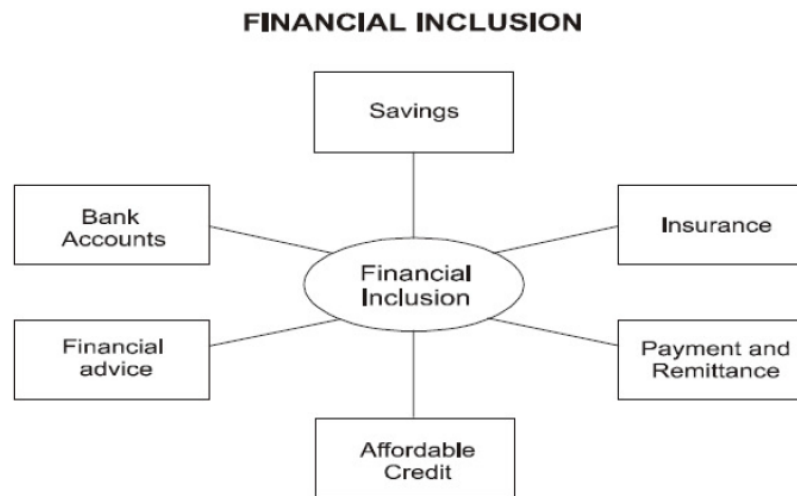
The Financial inclusion is considered to be the vein of economic growth and development. In present scenario greater importance is provided for the concepts and theoretical background of financial inclusion at national as well in the global context. The term "financial inclusion" has gained importance since the early 2000s, as a result of the findings about financial exclusion and its direct correlation to poverty. The present study mainly forecast on people's knowledge and awareness about formal financial products and services which is an essential element to achieve financial inclusion in the nation.

FINANCIAL INCLUSION – MEANING AND DEFINITIONS:

The 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 Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan, 2008). According to Dr. Raghuram G. Rajan (2009), the chairman of The

Committee on Financial Sector Reforms, Financial Inclusion refers to universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products.

Financial inclusion defined as providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low-income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector (The Financial Action Task Force, 2013). The Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients. Financial services are delivered by a range of providers, most of them private, and reach everyone who can use them, including disabled, poor, rural, and other excluded populations. (Centre for Financial Inclusion 2012)



Sources: Report of the Rangrajan Committee on Financial Inclusion

CHALLENGES IN ACHIEVING FINANCIAL INCLUSION IN INDIA

Financial Inclusion is considered to be the foremost factor to achieve better socio-economic inclusivity in the country. In the developing nations like India, achieving financial inclusion is included with different challenges. They are as listed as follows:

1. Lack of financial literacy
2. Lack of Banking Facilities in rural India
3. Limited utility of ICT in banking industry
4. Lack of Adequate Infrastructure
5. Limited and lack of financial resources
6. Burdensome Documentation Procedure

PRADHAN MANTRI JAN - DHAN YOJANA (PMJDY SCHEME (The greatest strategic initiative)

The Prime minister’s scheme ‘Pradhan Mantri Jan-Dhan Yojana (PMDJY)’ was launched on 28th August 2014 which envisages universal access to banking with a basic banking account with no minimum balance, financial literacy, access to credit insurance and pension. This scheme is considered to be the greatest strategic initiative to achieve financial inclusion in India. The Prime minister’s scheme become very popular among the public but the outcome in regards to achieving financial inclusion is still in the introductory stage.

Table – 1: Pradhan Mantri Jan - Dhan Yojana (Accounts Opened As on 14.12.2016)
(All Figures in Crores)

Disclaimer: Information is based upon the data as submitted by different banks/SLBCs

S.No	Banks	No Of Accounts			No Of Rupay Debit Cards	Balance In Accounts	% of Zero Balance Accounts
		Rural	Urban	Total			
1	Public Sector Banks	11.52	9.18	20.70	16.29	57988.45	23.42
2	Private Banks	0.52	0.35	0.86	0.81	2723.55	34.66
3	Regional Rural Banks	3.80	0.61	4.41	3.29	13411.12	20.04
	Total	15.84	10.14	25.98	20.40	74123.12	23.22

Source: www.pmjdy.gov.in

RATIONALE OF THE STUDY

This research work is unique as it is focusing to identify the problems in achieving financial inclusion by considering the people’s knowledge and awareness about the formal financial products and services. The present study helps the banking industry to identify the problems in achieving financial inclusion by the way to formulate better and suitable products and services which induce the better inclusion in society.

OBJECTIVES OF THE STUDY

1. To study people’s awareness, knowledge and usage of formal financial products and services.
2. To suggest measures to overcome challenges in attaining financial inclusion.

HYPOTHESES FOR THE STUDY

1. H₀ - There is no significant difference between the Genders of the respondents and their Knowledge about the Formal Financial Products and Services.

2. H_0 - There is no significant difference between the Educational qualifications of the respondents and their Knowledge about the Formal Financial Products and Services.

LIMITATIONS OF THE STUDY

1. The sample for the study is confined to Kancheepuram district only. Hence the findings cannot be treated as representative of the entire Nation.
2. The random sampling method and the limited sample of 372 respondents have limited the findings of the study.
- 3.

RESEARCH METHODOLOGY

The research work is empirical in nature. A survey questionnaire designed and distributed under Random sampling method to find out the people's knowledge and awareness on formal financial products and services in Kancheepuram district. 372 valid samples are considered for the study. Books and web sites constitute the secondary data.

LITERATURE REVIEW

United Nations Development Programme (2012) project on financial inclusion aims to increase financial inclusion of the poor by developing appropriate financial products for them and increasing awareness on available financial services and strengthening financial literacy, particularly amongst women. Hence, the financial education and awareness is considered to be the foremost important factor for the achievement of financial inclusion.

CGAP report (2014) on advancing financial inclusion to improve the lives of the poor explained their views on financial inclusion in India. They stated India is pulling all the right levers to advance financial inclusion and economic citizenship. It will be one of the most exciting places to watch, and to learn from, over the next few years in regards to financial inclusion. The research study supported that the government needs to take immense measure to make the possibility of financial inclusion in the nation.

Shamika Ravi and Shruti Gakhar (2015) have studied the critical part of financial inclusion scheme Jan-Dan Yojana, a special scheme of Indian prime minister. The researchers criticized the financial inclusion scheme which will not be helpful for the complete financial inclusion in the country and the outcome of the scheme would be limited. According to the researchers view the Raising awareness and imparting financial literacy are also critical to the utilization of financial instruments and for better financial decision-making.

ANALYSIS AND INTERPRETATION

The data analysis is completely done with the help of SPSS (15th version). The reliability of the data per Cronbach's Alpha is 91.9%. In order to achieve the objectives of the study statistical techniques are used and the results are presented below.

Table - 2 showing the socio-demographic factors of the respondents

Demographic Factors	Classification	No. of Respondents (n = 372)	Percent
Age	Less than 20 years	39	10%
	20-30 years	103	28%
	31-40 years	97	26%
	41-50 years	74	20%
	Above 50 years	59	16%
Gender	Male	168	45%
	Female	204	55%
Educational Qualification	School level	157	42%
	College level	155	42%
	No formal Education	60	16%

Source: Primary Data

It is inferred from the above table that majority (28%) of the respondents are belongs to the age of 20-30 years. 55% of the respondents are belongs to the gender of female and 45% are male. 42% of the respondents have restricted themselves with the school education which is really imbalanced.

Table – 3 showing the Independent t-test between the Gender of the respondents and their Knowledge about the Formal Financial Products and Services

Knowledge about the Formal Financial Products and Services	Levene's Test for Equality of Variances		t-test for Equality of Means	
	F-Value	Significance	t - value	P-Value
Debit Card	0.000	0.998	2.142	0.032*
Credit Card	1.389	0.239	0.552	0.581
Online Banking Transaction Services	0.068	0.795	0.830	0.407
Internet Banking Services	0.448	0.504	0.588	0.556
Mobile Banking Services	0.372	0.542	-0.664	0.507
Postal Savings Services	0.632	0.427	0.430	0.667
SHG Bank Services	0.005	0.944	-1.386	0.166
Pension Schemes	0.044	0.835	-2.318	0.021*
PMJDY Benefits	0.371	0.543	-1.398	0.162
NREGP Services	0.402	0.526	-0.449	0.654
Personal Loan	0.027	0.870	-1.064	0.287
Educational Loan	1.052	0.306	-2.955	0.003*
Housing Loan	1.487	0.223	-1.177	0.239
Vehicle Loan	2.514	0.114	0.248	0.804

Loan for Household Equipment	1.234	0.267	0.909	0.363
Installment / Hire Purchase services	0.704	0.402	0.222	0.824
Life Insurance	0.046	0.830	0.622	0.534
Medical Insurance	0.209	0.648	0.130	0.896
Accidental Insurance	0.950	0.330	0.038	0.97
Cheques and Demand Draft	0.022	0.882	-0.165	0.869
Gold Loan & Mortgage	0.426	0.514	0.851	0.395
Property Loan & Mortgage	2.291	0.131	1.220	0.223
Crop/Livestock Insurance	0.190	0.663	-0.096	0.923
Mutual Funds	1.586	0.209	-1.829	0.068

Source: Computed data

*5% Level of Significance

H_0 - There is no significant difference between the Gender of the respondents and their Knowledge about the Formal Financial Products and Services.

It is inferred from the above table that the p-value of 0.032 (Debit Card), 0.021 (Pension Schemes) and 0.003 (Educational Loan) are less than the table value at 5% level of significance. Hence null hypothesis is rejected with regards to the knowledge of formal financial products and services such as Debit cards, Pension schemes and Educational loans.

However the null hypothesis with regards to all the other variables is accepted as the p-value of the same were greater than the table value at 5% level of significance.

Table - 4 showing the One-way Analysis of Variance between the Age of the respondents and their Knowledge about the Formal Financial Products and Services

Knowledge about the Formal Financial Products and Services	F - Value	P-Value
Bank Deposits and Withdrawals	7.410	0.000*
ATM Services	12.163	0.000*
Debit Card	8.004	0.000*
Credit Card	3.544	0.007*
Online Banking Transaction Services	1.593	0.176
Internet Banking Services	1.467	0.212
Mobile Banking Services	1.886	0.112
Postal Savings Services	2.877	0.022*
SHG Bank Services	0.328	0.859
Pension Schemes	1.042	0.385
PMJDY Benefits	0.225	0.924
NREGP Services	0.450	0.773
Personal Loan	0.370	0.830
Educational Loan	4.455	0.001*
Housing Loan	1.043	0.385
Vehicle Loan	1.003	0.406

Loan for Household Equipment	2.596	0.036*
Installment / Hire Purchase services	6.904	0.000*
Life Insurance	2.627	0.034*
Medical Insurance	0.432	0.786
Accidental Insurance	1.315	0.264
Cheques and Demand Draft	1.790	0.130
Gold Loan & Mortgage	1.678	0.155
Property Loan & Mortgage	1.949	0.102
Crop/Livestock Insurance	1.333	0.257
Mutual Funds	1.450	0.217

Source: Computed data

*5% Level of Significance

H_0 - There is no significant difference between the Age of the respondents and their Knowledge about the Formal Financial Products and Services.

It is inferred from the above table that the p-value of the variables Bank Deposits and Withdrawals, ATM Services, Debit Cards, Credit Cards, Postal Savings Services, Educational Loans, Loans for Household Equipment, Installment / Hire Purchase services and Life Insurances are less than the table value at 5% level of significance.

Hence null hypothesis is rejected and it is concluded that there is significant difference between the Age of the respondents and their Knowledge about the Formal Financial Products and Services as mentioned above.

Table – 5 showing the Final Cluster Centres of People’s Knowledge, Awareness and Usage of formal financial products and services

Cluster analysis (CA) is an exploratory data analysis tool for organizing observed data into meaningful groups or cluster which maximizes the similarity of cases within each cluster while maximizing the dissimilarity between groups that are initially unknown. A cluster is a group of relatively homogeneous cases or observations. Cluster analysis is the statistical method of partitioning a sample into homogeneous classes to produce an operational classification. The k-means clustering method will produce the exact k different clusters demanded of greatest possible distinction. In K-means clustering, KM application data that has 25 variables with regards to People’s Knowledge, Awareness and Usage of formal financial products and services.

Final Cluster Centers			
Variables	Cluster		
	1	2	3
ATM Services	2	3	2
Debit Card	2	3	2
Credit Card	2	3	2
Online Banking Transaction Services	2	3	1
Internet Banking Services	2	3	1

Mobile Banking Services	2	3	1
Postal Savings Services	2	3	2
SHG Bank Services	2	2	1
Pension Schemes	2	2	1
PMJDY Benefits	2	2	1
NREGP Services	2	2	1
Personal Loan	2	2	1
Educational Loan	2	2	1
Housing Loan	2	2	1
Vehicle Loan	2	2	1
Loan for Household Equipment	2	2	1
Installment / Hire Purchase services	2	2	1
Life Insurance	2	2	1
Medical Insurance	2	2	1
Accidental Insurance	2	2	1
Cheques and Demand Draft	2	2	1
Gold Loan & Mortgage	2	2	1
Property Loan & Mortgage	2	2	1
Crop/Livestock Insurance	2	2	1
Mutual Funds	2	2	1

Source: Computed Data

Table – 6 showing the Number of Cases in each Cluster with regards to People’s Knowledge, Awareness and Usage of formal financial products and services

Number of Cases in each Cluster	
Cluster	Cases
1 - Knowledge Group with No Action	144
2 – Knowledge Group with Action	93
3 - Unaware Group	135
Total	372

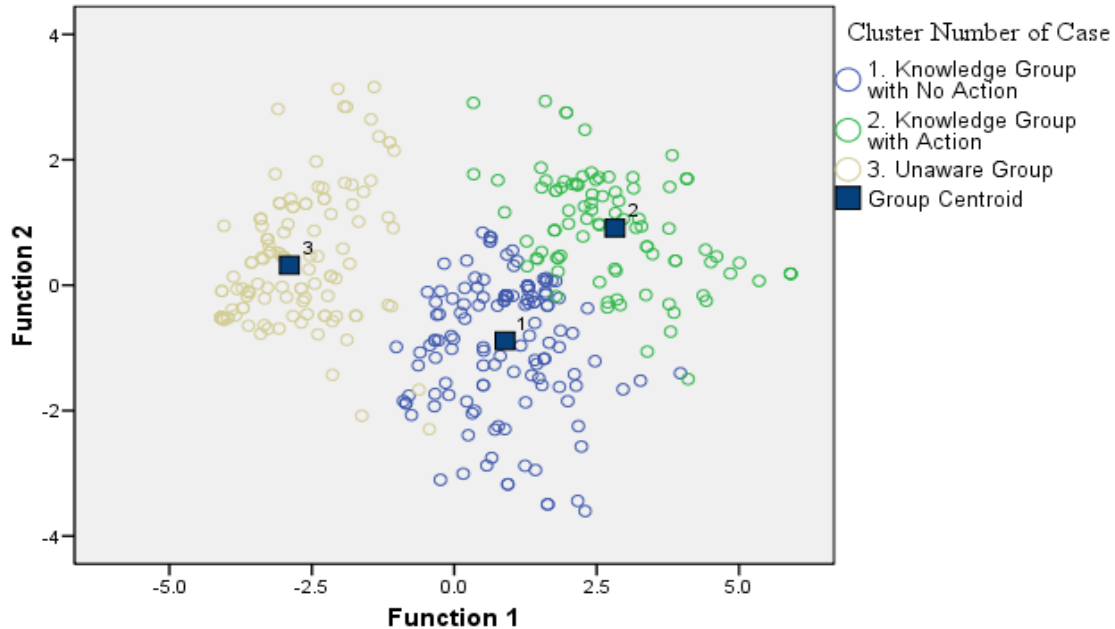
Source: Computed Data

From the above table we identify the Grouping Clusters that indicates that majority of the respondents belongs to Knowledge Group with No Action (144 Cases) whereas 135 cases are belongs to the Unaware Group and only 93 cases are belongs to Knowledge Group with Action. So, majority of the people are unaware of the formal financial products and services and most of the people are having knowledge but not utilizing the formal financial services.

Figure – 1 showing the Canonical Discriminant Functions with regards to People’s Knowledge, Awareness and Usage of formal financial products and services

Discriminant analysis is then performed with the original parameters by considering the groups formed by the k-means algorithm.

Canonical Discriminant Functions



This section is to explore the possibility of People’s Knowledge, Awareness and Usage of formal financial products and services among the respondents using unsupervised classification techniques. An attempt is made to analyse People’s Knowledge, Awareness and Usage of formal financial products and services to arrive at the three clusters, reviewing the observation scale preferences of 372 respondents.

Table – 7 showing the Predicted Group Membership of Clusters in regards to People’s Knowledge, Awareness and Usage of formal financial products and services

	Cluster Number of Case	Predicted Group Membership			Total
		Knowledge Group with No Action	Knowledge Group with Action	Unaware Group	
Count	1 - Knowledge Group with No Action	142	2	0	115
	2 – Knowledge Group with Action	4	89	0	109
	3 - Unaware Group	2	0	133	148
%	1 - Knowledge Group with No Action	99%	1%	0%	100
	2 – Knowledge Group with Action	4%	96%	0%	100
	3 - Unaware Group	1%	0%	99%	100

Source: Computed Data
97.8% of original grouped cases correctly classified.

The prediction group membership is the predicted frequencies of groups from the analysis. The numbers going down each column indicate how many were correctly and incorrectly classified. From the above table it is inferred 97.8% of original grouped cases are correctly classified with 99% (142) in Cluster1, 96% (89) in Cluster2 and 99% (133) in Cluster3.

The present analysis shows that only three groups could be meaningfully formed for each category. Further those are classified into Cluster one, Cluster two, Cluster three categories based on the observation scale parameter, on comparing the preferences of these approaches in terms of clustering the respondents under Knowledge, Awareness and Usage of formal financial products and services

RESEARCH FINDINGS

- 28% of the respondents are belongs to the age of 20-30 years. 55% of the respondents are belongs to the gender of female and 45% are male. 42% of the respondents have restricted themselves with the school education.
- There is significant difference between the Genders of the respondents and the Knowledge of formal financial products and services such as Debit cards, Pension schemes and Educational loans.
- There is significant difference between the Age of the respondents and their Knowledge about the Formal Financial Products and Services such as Bank Deposits and Withdrawals, ATM Services, Debit Cards, Credit Cards, Postal Savings Services, Educational Loans, Loans for Household Equipment, Installment / Hire Purchase services and Life Insurances.
- In Cluster Analysis, majority of the respondents belongs to Knowledge Group with No Action (144 Cases) whereas 135 cases are belongs to the Unaware Group and only 93 cases are belongs to Knowledge Group with Action. So, majority of the people are unaware of the formal financial products and services and most of the people are having knowledge but not utilizing the formal financial services.
- In Discriminant Analysis, 97.8% of original grouped cases are correctly classified with 99% (142) in Cluster1, 96% (89) in Cluster2 and 99% (133) in Cluster3 in regards to People's Knowledge, Awareness and Usage of formal financial products and services.

SUGGESTIONS

The real financial inclusion in the country can be achieved only through providing better financial literacy among people. The knowledge and awareness about formal financial products and services is vital to achieve inclusivity at the earliest. From this present study we can clearly say that majority of the people are not opting and utilizing the formal financial products and service. And most of the respondents are aware of banking products but still not taking up any services. Hence, The banking industry is expected to provide customized and profitable service to people, this leads to an effective financial inclusion. By creating better awareness on financial products and service the achievement of inclusive growth will become ease and enduring. The

need for utmost utility of ICT in the banking industry has become a primary focus in Indian economy which speeds up the banking function to deliver quality customer service.

CONCLUSION

Developing economy like Indian should put its potential inputs to achieve inclusive socio-economic growth and development. The holistic financial inclusion approach enhances the national development and economic growth. Banking industry has an immediate responsibility to create comprehensive financial inclusion in India. The people are to be empowered with better financial literacy and awareness to promote faster financial inclusion. Hence, Government of India, Banking industry and people are playing a massive role to achieve a strategic financial inclusion by overcoming all the challenges for better empowered economy.

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