

# Financial Inclusion through Financial Literacy – A Study in Puducherry Union Territory

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## Abstract

In Indian culture, agriculture has a strong base for occupation. It had huge contribution in Indian economy during pre and post independence. The growth gradually declined and resulted in minimum contribution in the total economy. Enormous research highlighted the down turn of Indian agriculture due to financial inefficiencies of small and marginal farmers who are numbered the highest in the total population of farmers. The category had remained ineligible to be covered financial towards formal sectors and in turn had resulted in low irrigation and production of crops in their rested small acres of lands. Despite of enormous efforts of RBI, Regional Banks and Financial Institutions, yet they remained a huge laggard in their financial upliftment. This research highlights that mere opening of savings accounts does not encourage its effective utilization unless it attains its adequate financial literacy. The research throws a light on various parameters “constrains” towards attaining adequate financial literacy in the aforesaid category and recommends the suggestions for the same. Stratified sampling with the total of 383 samples covering four blocks of village of Puducherry have been opted for the research.

**Index Terms:** Indian agriculture, Small and Marginal farmers, financial inefficiencies, financial upliftment, financial literacy

## **I. INTRDOUCTION**

Financial Inclusion paved an excellent path of availing financial services to the excluded group in India. RBI, Financial Institutions and SHG rendered a tremendous aid to cover the uncovered financially. Financial inclusion is termed as availability of banking services at an affordable cost to the disadvantaged and low-income groups. But including the weaker sections financially has become a challenging task for all the nations in the world. Despite of all the measures, still it is estimated that over two billion people do not have any access to financial services. It has been believed a nation can grow economically and socially if it's weaker section can turn out to be financial independent. India has taken several steps to bring financial inclusion for the excluded people.

But yet, few categories of people such as such as marginal farmers, landless laborers, oral lessees, self employed and unorganized enterprises, urban slum dwellers, migrants, unemployed, ethnic minorities etc do not have full-fledged access of banking services. The banking industry in India has shown tremendous growth in the volume and complexity during the last few decades but these financially excluded groups are yet to access or use banking services like savings, deposits, borrowing, payment and remittance facilities. Only 40 % of population in India has bank accounts and out of this only half of the population uses financial services in a sufficient manner.

India, despite of being an agricultural country, 45.9 million of the total 89.3 million farmers household do not have access to the credit either from the formal or the informal sector. Only 27 % of the total farm households use formal sources of credit. The most vulnerable group at the bottom of the pyramid of the farming population in the country are small and marginal farmers. The small and marginal are poor in the country. They do not have access to institutional credit for agriculture purpose. Banks also feel that these two categories of farmers are not credit worthy due to their small size of land holding which posses high credit risk. Due to

inadequate access of financial services, these groups borrows funds from non-institutional sources at high rate of interest. The marginal farmers hold 80.6% of agricultural land but they operate only 43.5% of the total agricultural land held by them and due to low size of land holding, they fail to become eligible for institutional credit.

### **100% Financial Inclusion in Puducherry State in the Year 2012**

The Union Territory of Puducherry was first to attain financial inclusion in the year 2012. In the year all the banks opened 2,322413 saving bank account out of which 29, 380 accounts were covered under ICT based financial inclusion. Besides these, Smart card facilities, door step banking in the unbanked areas, Financial Literacy and Self Employment Training Institute were implemented. In addition to this, many villages were covered various delivery models like Business correspondents, Internet Kiosk, mobile vans etc., were introduced.

### **Financial Literacy the Major Constrain**

Despite of enormous effort from the Government of India towards covering the exclude category, still they remained covered from opening saving account point of view but uncovered of utilizing the available facilities of formal financial system. There are still cases that the small and marginal farmers are exploited with high interest rates by the informal sectors. The main problem of being restricted of using or utilizing the financial products offered by formal financial system is lack of financial literacy. The Government of India has been successful in opening savings accounts to the majority of Indian Population but failed to educate the people towards its financial products. Small and marginal farmers who lack education tend to avoid visiting banks and use financial products and become the victims of high interest of loans borrowed from informal sectors (money lenders).

Hence, yet the Government are to address the following questions to bring qualitative coverage of financial inclusion rather than quantitative.

1. Are all the individuals who are covered financially well equipped to take financial decisions.?
2. Do the population covered financially posses adequate knowledge of financial products offered by the formal financial system?
3. Are the installed or the implemented programmes on Financial Literacy running successfully?
4. Is there a full fledge support from formal financial institutions towards educating the excluded category financially?

The higher degree of awareness and understanding about savings, banking, credit and other financial products should be the first steps creating the demand and adoption towards formal financial system. Only 5% of villages in India posses brick and mortar branches (Nayak,2012) and only 54.4% of the households in rural areas utilize the services of formal sector due to low or no financial literacy. Financial literacy must be therefore the key parameter for effective financial inclusion,

On an average, Individuals in India do not have more than three months savings due to increased consumption expenditure. Therefore overall savings rates has dropped drastically over the few decades (Nayak, 2012). There has been always a greater demand of availing credit especially for consumption purpose. Dependency on Informal sources and opaque sources of credit has always been major problem in India. Financial literacy therefore can be recognize as the core skill which is essential for the consumers to operate complex financial environment ((Atkinson & Messy, 2012).

## **II. Research Gap**

The studies conducted on importance of financial literacy for the rurals are confined to the countries like US. Very rare or less studies have been conducted in India that no studies conducted in South India especially in puducherry reflecting its importance towards financial inclusion. Therefore, the Government should include a financial literacy a major parameter to be improved in its policies towards attaining Financial Inclusion. Various innovative approaches need to be adopted to literate the illiterates or less literate financially.

### III. Review of Literature

**Hung, A. A., Parker et al** (2009) pointed out that “poor savings and investment decision may incur serious implications for long term Financial health. The basic problem lies with the large segment with low level of financial literacy. A great deal of variation continues to exist in how researchers define and measure financial literacy itself. Studies need to be developed measuring the financial literacy in terms of its impact on individuals financial behavior”. **Monique Cohe et al** (2011) pointed out that fifteen years ago financial inclusion meant to be mirroring number of clients having bank accounts but at present it deals with ability to access and use “ability to choose financial services”. **Pallavi Gupta and Bharti Singh** (2013) mentioned that “for the development of any country financial inclusion is a vital tool and at current it has become a global concern as well. Numerous researchers have widened their horizon on the same”. They concluded that there is a large variation among different states of the country and low variation is witnessed at national level. Further the author also recommends the alternations concerned to the State level Government policy regards to financial inclusion focusing the country’s social cultural diversity.

**Akhil Damodaran** (2013) briefly elucidated in their article concerning to the Financial Inclusion, as an important priority for the country in terms of economic growth and development of society. Financial Inclusion is said to ensure the eased access towards financial system with regards people (despite to the knowledge/awareness in the same) resulting this to a minimized gap between the rich and poor. The author further emphasizes on the Technological Innovation and Financial Education that plays an eminent role in the development and acknowledgement of this Financial Inclusion System. **Nitiin** (2013) attempts to assess the Behavior and Determinants of Financial Inclusion, and clears that “FINANCIAL INCLUSIONS are the catalyst in the economic growth and progress in the modern era”. “The findings in this article display that importance of regional economic condition for the betterment of the same. The other determinants into the highlights for the Financial Inclusion are the income and employee generating scheme initiated through factory promotion and employee base in the company/ firm as this creates more awareness on bank activities”. **Ashima Thapar** (2013) undertaken a research and recommended that “biometric cards for security in transaction, business correspondence in villages to promote financial inclusion program and it further emphasizes the collaboration of three parties i.e., RBI, all the banks and general public to put up a required effort to witness a progress in financial inclusion”.

**Hameedu** (2014) also highlighted that “there has been great increase inside the banking industry and recommended that the policy for accomplishing total financial inclusion also keeps changing to adapt to the desires of environment. The banks should confirm new techniques for the merchandising and attainment of financial inclusion”. **Iman Widhiyanrt et al** (2018) assessed the financial accessibility of credit program scheme and suggested that “to improve their efforts to increase financial education through learning, training, socialization with the theme of finance and banking. Those efforts are intended to increase the financial literacy of the community. Adequate financial literacy will create better public financial behavior so that they are able to access financial institution products and services to the well-being of the community and encourage the improvement of the national economy through the financial sector”.

### IV. Objectives

1. To analyze the opinion of respondents about financial inclusion in Puducherry state
2. To find out the difference of opinion of Gender and type of family towards the measures taken by the government in promoting the awareness and literacy of financial products

### V. Research Methodology

The research in the study is exploratory in nature and adopts survey method to collect primary data. It aims at assessing the awareness of respondents towards existed financial literacy of financial products and measure adopted by the government towards improving financial literacy. The variables such as Gender and Type of respondents’ family have been taken for the assessment. Frequency and Sample T Test have been utilized as the tools for assessment. The sample of 383 by stratified sampling from various blocks of Puducherry villages has been chosen.

## VI. Analysis and interpretations

**Table-1: Respondents' awareness towards financial products and adequate financial literacy towards it**

	Frequency	Percent	Valid Percent	Cumulative Percent
yes	66	17.2	17.2	17.2
no	317	82.8	82.8	100.0
Total	383	100.0	100.0	

The above table shows that 82.8 % of the respondents opined “No” about encountering any financial based literacy programmes in their village and 17.2 % of the respondents opined “Yes”.

**Table-2: Opinion towards Financial Literacy steps that the respondents are aware of**

	Frequency	Percent
bank official lecture	25	6.5
literacy based dramas	128	33.4
audio visual display	126	32.9
media advertisement	80	20.9
others	24	6.3
Total	383	100.0

The above table shows that 33.4 % of the respondents encountered financial based literacy programmes in the form of dramas, 32.9 % of the respondents encountered in the form of audio visual display, 20.9 % of the respondents encountered in the form of media advertisement, 6.5% of the respondents encountered in the form of bank official lectures and 6.3 % of the respondents encountered in the form of others.

**Table-3: Role of Bank officials towards promoting Financial Literacy**

	Frequency	Percent
always	1	.3
often	32	8.4
sometimes	187	48.8
rarely	148	38.6
never	15	4.7
<b>Total</b>	<b>382</b>	<b>100.</b>

The above table shows that as per 48.85 % of the respondents, bank officials only sometimes brief about the financial products when they visit the bank, as per 38.6 % of the respondents bank rarely brief about financial products, as per 8.4% of the respondents they often brief, as per 3.7% of the respondents they never brief and only 0.3 % of the respondents said that they always brief about financial products when they visit the bank.

**Table-4: Independent Sample Test: Difference of opinion of Gender towards the measures taken by the government in promoting the awareness and literacy of financial products**

		t-test for Equality of Means						
		t	df	Sig. (2- tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
FINLIT	Equal variances assumed	-.883	383	.378	-.03581	.04054	-.11552	.04389
	Equal variances not assumed	-.888	351. 167	.375	-.03581	.04033	-.11513	.04351

An independent sample “t” test was conducted with an alpha level (type one error) 0.05 to evaluate the mean differences between respondents gender’s opinion about the impact of financial literacy results indicated that male opinion about the about the impact of financial literacy with mean 2.8 and SD 0.396 and female opinion about about the impact of financial literacy with mean 2.92 and SD 0.384 was not significantly different with t value = -0.883, df = 381,  $p < .05$ . At 95% confidence interval, the mean difference between the two groups was -.11552 to 0.04389. There is no difference in Gender’s opinion about the impact of financial literacy

**Table-5: Independent Samples Test: Difference of opinion of Respondents type of family towards the measures taken by the government in promoting the awareness and literacy of financial products**

		t-test for Equality of Means						
		t	df	Sig. (2- tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
							Lower	Upper
FINLIT	Equal variances assumed	-2.231	383	.026	-.08933	.04003	-.16804	-.01062
	Equal variances not assumed	-2.238	368. 102	.026	-.08933	.03991	-.16781	-.01085

An independent sample “t” test was conducted with an alpha level (type one error) 0.05 to evaluate the mean differences between respondents type of family and its opinion about the impact of financial literacy results indicated that Nuclear Family’s opinion about the impact of financial literacy with mean 2.85 and SD 0.383 and Joint Family’s opinion about the impact of financial literacy with mean 2.85 and SD 0.383 was significantly different with t value = -2.231, df = 381,  $p > .05$ . At 95% confidence interval, the mean difference between the two groups was -.016804 to -0.01062. There is no significant difference in the opinion of respondents type of family towards financial literacy

## VII. Findings:

The study depicted that the majority of the respondents are totally unaware of the financial products offered in the formal financial system and the respondents who possess awareness have limited literacy towards. It also reveals that it is the rare media advertisement that provides minimum awareness of the different financial

products. Apart from this, the small land and marginal farmers are yet unaware about the steps initiated by RBI in the rural areas.

The study also determines the role of bank officials in promoting financial products. The respondents have opined that they give rare responses and awareness during every visit. Despite of advanced facilities like mobile banking, internet banking, kiosk facilities etc , small and marginal farmers and other similar groups still have to depend on others due to low financial education.

Further using T test analysis have been performed to test the Gender and Family type's of all categories of farmers' difference of opinion towards the measures taken by the government in promoting the awareness and literacy of financial products . it has been found that in Gender wise T test analysis, let that be a male or female have similar opinion or no difference of opinion (ie) unaware and less satisfied towards the measure taken. Similarly, the test related to type of Family (i.e) Joint or nuclear , have again no difference of opinion (ie) partially or fully unaware about the financial products and opined dissatisfied towards the measures taken to improve financial literacy. The RBI has installed many programs related to financial literacy. Counseling centers, awareness programs at schools, colleges and public places, allotting projects to reach the financial education I n the rural areas, availing business correspondence, motivating self help groups, availing the facility of micro finance etc. but still there found to be a huge laggard in educating financially to these deprived categories.

### VIII. Suggestions and conclusion

Financial literacy is a major parameter towards financial inclusion need to be addressed in an effective way. Small and marginal farmers are the major concern who are yet to be uplifted financially, must be educated on individual basis or on a group basis. Reserve Bank of India has taken tremendous efforts but execution of efforts at the bottom level is missing. The business correspondent model can be can utilized effectively from mere opening of bank account to educating them towards financial products.

Frequent and regular conduction of awareness programmes by the rural regional banks can also be an effective measure to improve financial literacy. Initiation of individual training of using all banking facilities by deploying school and college students at the door step of the target group can be proved effective. Education of using mobile banking for funds transfer, availing loan etc can be mandatory imparted.

Awareness and mandatory utilization of kissan card, awareness towards crop insurance (Pradhan Mantri Fasal Bina yogana) – an Insurance during Crop failure, subsidy for prompt repayment of loan etc can improve the habit of savings and investment decisions in turn can enhance financial literacy among the target group.

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