

# Financial Literacy and Financial Inclusion in Karnataka – A Comparative Study of Demographic Segments

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## ABSTRACT

The confusions among the public about new banking rules and regulations has proven the need of immense financial education for attracting the customers and also for the long-term sustainability of customers in the banking sector for the financial stability of India. The present study has made an attempt to know the status of financial literacy and financial inclusion in the state of Karnataka. The article also focuses on the demographic aspects for comparative analysis with the financial literacy and financial inclusion status of Karnataka. The article confirms that, Karnataka population has comparatively good and reasonable financial literacy and financial inclusion rate as compare to the overall financial literacy and inclusion rate of India and also to the rest of the States in country.

The study reveals that in financial literacy level is proportionately higher than financial inclusion level. So inclusion policies need to be emphasised more by the Karnataka government as well as Government of India and the different financial regulatory bodies operating in India like Reserve Bank of India.

**Keywords:** Financial Market, Financial Services, Financial Education, Financial Inclusion, Financial literacy etc.

## 1. INTRODUCTION

India is one of the largest growing economy and a leading player in the world economy. India has becoming raising star in the inclusive growth in the world economy after introduction of various new financial inclusion schemes like Pradhana Manthri Jan Dhan Yojana (PMJDY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Atal Pension Yojana (APY), Sukanya Samridhi Yojana, Jeevan Suraksha Bandhan Yojana etc. The Indian Banking sector is also playing very important and major role in inclusive growth through the different financial inclusion schemes. Therefore, the various financial regulatory bodies and private banks have been increasingly interested with Financial Education.

The Indian Government's Financial Inclusion committee in its report defines financial inclusion 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 spirit of financial inclusion is in trying to see to that the wide range of appropriate financial products and services are

accessible to each individual and to enable them to understand and access to those financial products and services. (Rangarajan committee, 2008)

The OECD has defined financial literacy as “A combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.” OECD members also accepted to that different terminology used to understand this idea (particularly financial literacy and capability and also financial culture and insight) would be used proportionately as these reflect the same perceptions of the reality they need to achieve. Hence, it is concluded that to utilise the most appropriate term, “financial literacy”. (INFE, OECD, 2011)

A good and effective Financial Education is an essential element of financial inclusion. Financial Education importance is being grown day by day as it is very much important for policy makers to implement policies to endorse greater financial inclusion. A reasonable proportion of regulation and supervision from the policy makers would help to make sure the transparency and fair conduct by financial service providers, which will enables the customers to understand the pros and cons of financial products and services to make choices as per their needs.

Financial Inclusion and Financial Education are the two important elements for development role for RBI. It has created critical volume of literature and has uploaded on its website in 13 different languages for banks and also for other stakeholders to download it for using for different purpose. The main objectives of those initiatives are to create awareness about financial products and services, good financial practices, going digital and consumer protection. (RBI, 2007)

INFE, OECD. (2011). *Measuring Financial Literacy: Core Questionnaire in Measuring Financial Literacy: Questionnaire and Guidance Notes for conducting an Internationally Comparable Survey of Financial literacy*. Paris.

Rangarajan committee. (2008). *'Report of the Committee on Financial Inclusion', Committee Report*.

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## 2. LITERATURE REVIEW

Dr. J. Gajendra Naidu,(Oct 2017), “Financial literacy in India: A Review of Literature”- This paper contribute to study the level financial literacy in India by using literature based analysis. It reveals that financial literacy level in India is very low, especially women and youngsters who are struggling with basic financial knowledge.

Organisation for Economic Co-operation and Development (OECD)’ (2011) International Network on Financial Education (INFE) pilot study (2011) – This articles analysis the differences in financial attitude, knowledge and behaviours around the fourteen countries by socio demographics.

OECD Recommendations, (June 2009), “Financial Literacy and Consumer protection: Overlooked aspects of the Crisis”, - This article focus on the recommendations by the Organisation of Economic Co-operation and Development on various good practices on Financial Education and Awareness relating to Credit.

## 3. OBJECTIVES OF THE PAPER

- To Study the need of Financial Education for Financial Inclusion.
- To Know the Status of Financial literacy and financial inclusion in Karnataka.
- To compare the demographic characteristics with financial inclusion and financial literacy of Karnataka population.

#### 4. RESEARCH METHODOLOGY

The proposed research study is confined to Indian Territory particularly for Karnataka and analysis is made based on the information available. Data composed from secondary sources which comprise research articles, websites, newspaper articles, reports and Journal articles. This study is quantitative and literature exploration. For data analysis different tools will be utilized like frequency distribution, charts, diagrams etc. The study will throw light on the status of financial literacy and inclusion in Karnataka.

#### 5. Need of Financial Education for Financial Inclusion:

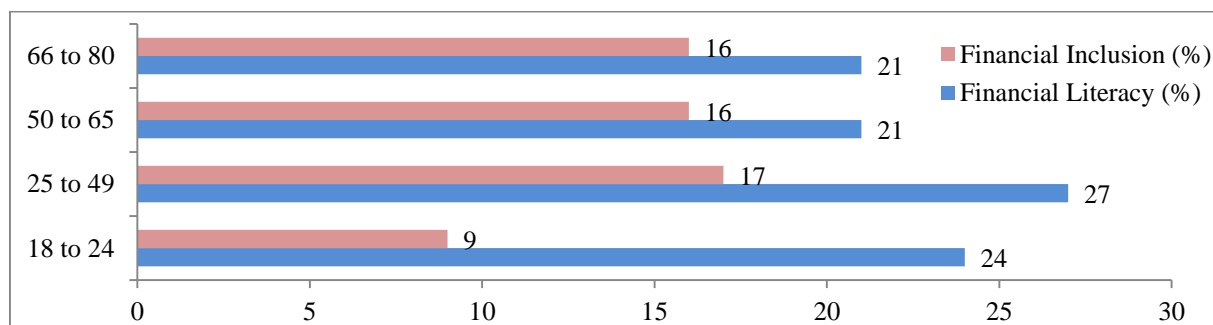
- Literacy level of Indian population is relatively lower to developed countries will highlight the importance of the financial education for financial inclusion in India.
- Greater and increased importance of Financial Inclusion highlights the importance of Financial Education. By developing “National Strategy for Financial Education” will helps to chart a clear and coordinated path towards attaining of exceptional financial inclusion.
- Financial Education is highly needed because it enables the customers to understand the financial products and services before buying them and understand their rights and obligations as consumers. Otherwise there is no chance of sizeable financial inclusion.
- Financial Education not only protects existing customers but also inspires the future customers by inculcating confidence in a country’s financial system. It is important for low income customers who have less financial experience and low financial literacy levels.
- Financial Education is not only important and needed for customers and also for financial institutions themselves. Financial institutions can get benefit out of Financial Education in different ways like increased number of transactions and income.
- Financial Education needed to protect the society and individuals against exploitive financial schemes and unreasonable interest rates charged by money lenders to the people who have been financially excluded.
- Difficulty in navigating the financial marketplace to customers who have no accessibility to financial service providers, particularly for poorly informed individuals made financial education is much needed for financial inclusion.
- Financial Education is crucial due to the rapid growth of Financial Innovation and the growing complexity of financial products and services, increased quantum of financial risk would create confusions among the people who had been neglected by financial service providers.
- Financial Education is a necessary complement to a sound framework for consumer protection due to increased financial market regulations and competitive credit markets. Lack of consumer proection is also a major reason for the financial exclusion in India.
- The existence of an effective system of financial education can contribute to public confidence on financial institutions, the inflow of deposits, the growth of the financial sector, while in the long run it could help to improve the investment attractiveness of the country.
- Global financial crisis only highlights the importance of financial education for financial inclusion for stability of the financial sector and financial system worldwide both in developed and developing countries especially like India.

## 6. Comparison of Demographic characteristics with Financial literacy and Financial Inclusion of Karnataka Population:

**Table and Graph: 01 Age-wise Financial Literacy and Inclusion**

Age in Years	Financial Literacy (%)	Financial Inclusion (%)
18 to 24	24	9
25 to 49	27	17
50 to 65	21	16
66 to 80	21	16

Source: National Centre for Financial Education National Survey

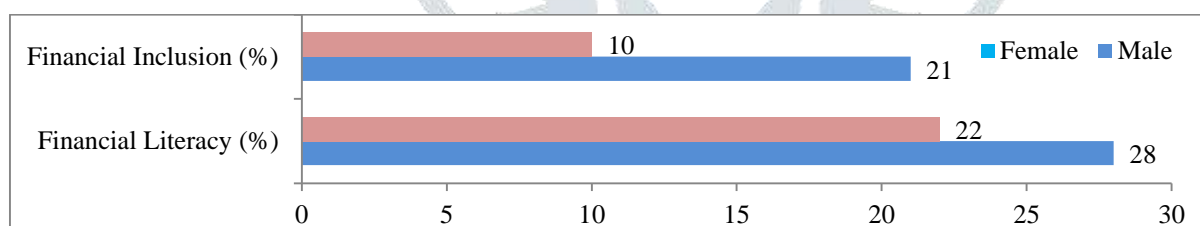


**Discussion:** The above table and graph highlights the financial literacy is more than to the financial inclusion in all age group of Karnataka people. Financial literacy of 18-24 age groups is more as they go to schools and colleges but it's little difficult to expect the financial inclusion from them as their income and savings level is comparatively lower than all other groups.

**Table and Graph: 02 Gender-wise Financial Literacy and Inclusion**

Gender	Financial Literacy (%)	Financial Inclusion (%)
Male	28	21
Female	22	10

Source: National Centre for Financial Education National Survey

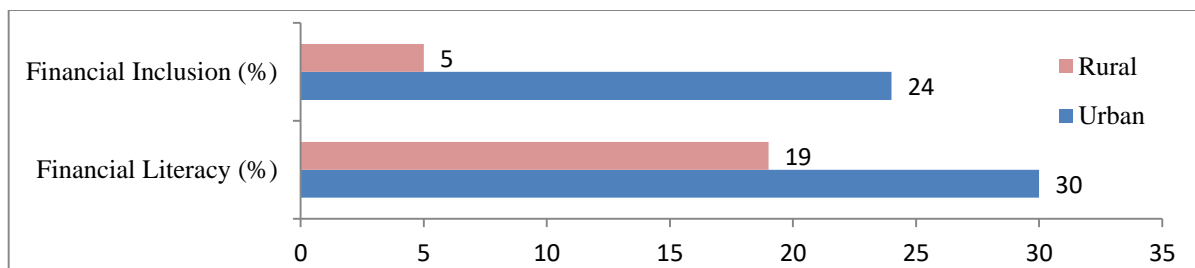


**Discussion:** The Gender-wise segment clearly indicates that financial literacy and inclusion level of male is high compare to the female population of Karnataka. It is also can be observed that inclusion level of female is relatively lower to their financial literacy level. It means, females are aware of financial services but they are not afford to buy those services as income and savings of females are very less compared to male population of Karnataka.

**Table and Graph: 03 Location-wise Financial Literacy and Inclusion**

Location	Financial Literacy (%)	Financial Inclusion (%)
Urban	30	24
Rural	19	5

Source: National Centre for Financial Education National Survey

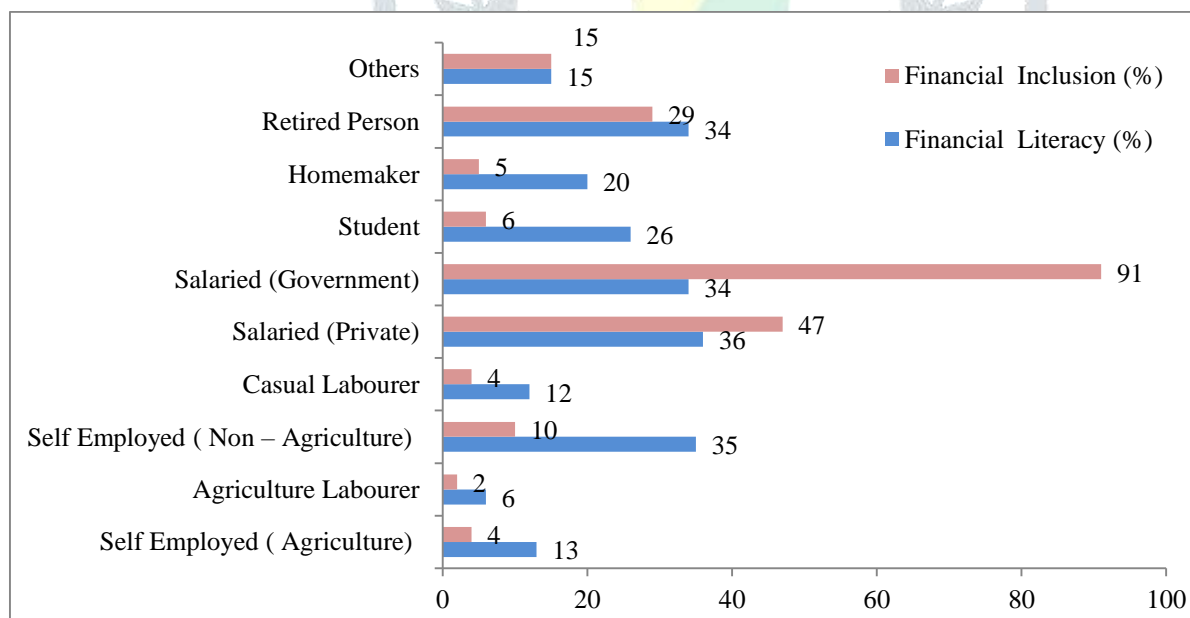


**Discussion:** Karnataka is not an exception, to the unsure quality and accessibility of education in the rural area of population parallel to urban population in India. Straight away, it has impact on financial literacy and inclusion status of Karnataka. So, it needs to be emphasizing more to the rural population for financial education and inclusion than the urban population in Karnataka. Because of rural population is more vulnerable to the financial products and services.

**Table and Graph: 04 Occupation-wise Financial Literacy and Inclusion**

Occupation	Financial Literacy (%)	Financial Inclusion (%)
Self Employed ( Agriculture)	13	4
Agriculture Labourer	6	2
Self Employed (Non – Agriculture)	35	10
Casual Labourer	12	4
Salaried (Private)	36	47
Salaried (Government)	34	91
Student	26	6
Home maker	20	5
Retired Person	34	29
Others	15	15

Source: National Centre for Financial Education National Survey



**Discussion:** The Occupational demographic segment has remarkable impact on financial literacy and inclusion in Karnataka. Firstly, Government salaried employee’s financial inclusion status is very high but their financial literacy level is very low due to lack of interest among government officials. Secondly, farmers, agricultural labours, home makers and student financial literacy and inclusion are less as their

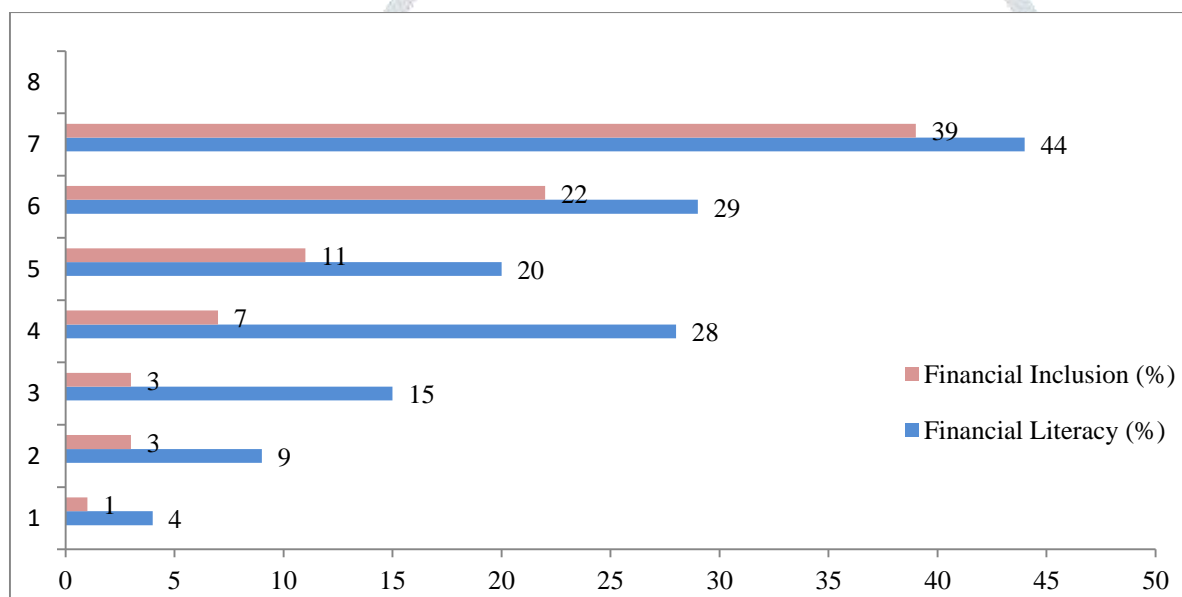


participation in financial system is very less. At last, retired people and private employees financial literacy and inclusion level is comparatively good.

**Table and Graph: 05 Education-wise Financial Literacy and Inclusion**

Education	Financial Literacy (%)	Financial Inclusion (%)
Illiterate	4	1
Primary( Up to V Class)	9	3
Upper Primary ( V to VIII Class)	15	3
Secondary (IX to X Class)	28	7
Senior Secondary ( XI to XII Class)	20	11
Diploma	29	22
Graduate & Above	44	39

Source: National Centre for Financial Education National Survey

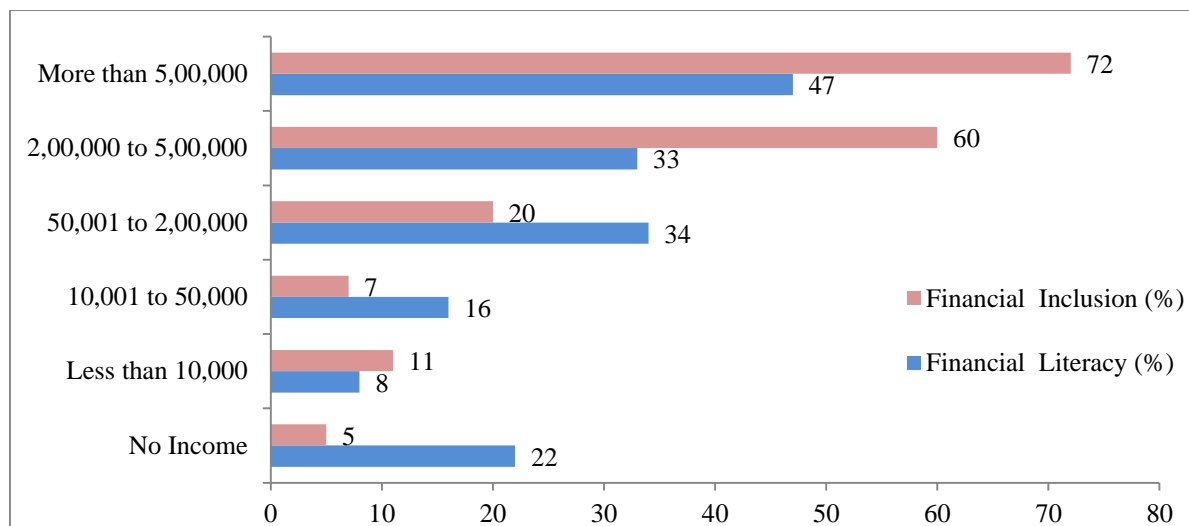


**Discussion:** From the Education-wise aspect of Demographic segment, it is quite expected that financial literacy and inclusion level will be comparatively high in diploma holders, graduates and master graduates than others but not completely as their lack of insurable interest among. But, Secondary and senior secondary education, Primary and upper primary qualifiers have less financial literacy and inclusion level. Illiterates are also totally neglected for financial education due to difficulty in understanding the customer disclosures as well as consumer protection policies.

**Table and Graph: 06 Income-wise Financial Literacy and Inclusion**  
(Per Annum in Rupees)

Income	Financial Literacy (%)	Financial Inclusion (%)
No Income	22	5
Less than 10,000	8	11
10,001 to 50,000	16	7
50,001 to 2,00,000	34	20
2,00,000 to 5,00,000	33	60
More than 5,00,000	47	72

Source: National Centre for Financial Education National Survey

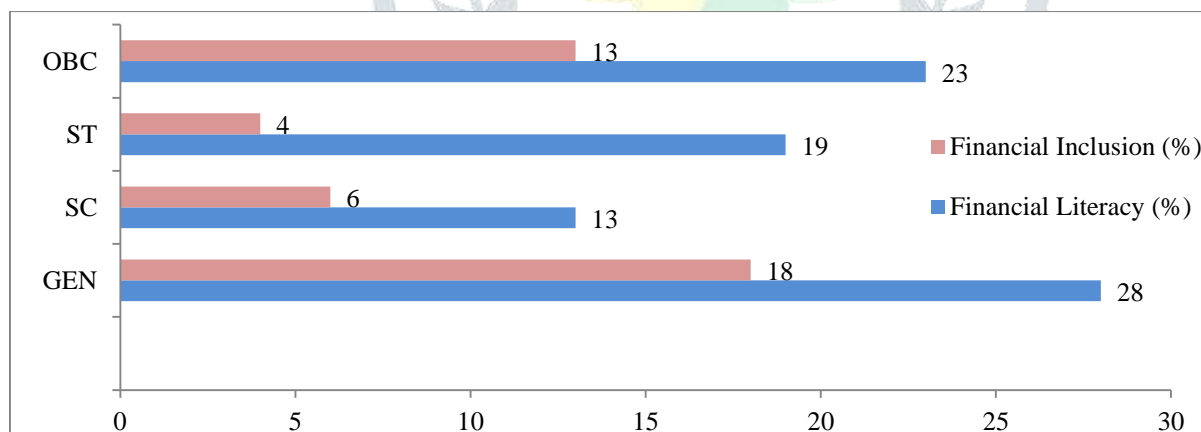


**Discussion:** Income level of Karnataka population has tremendous impact on financial inclusion but not more on financial literacy. There is a positive correlation between income and financial inclusion level. It means, more the income level more the financial inclusion. As the people’s income increases from 50,000 to 5, 00,000 or more, inclusion level also multiplied with three to four times. But income has no any impact on financial literacy level of population in Karnataka.

**Table and Graph: 07 Social Class-wise Financial Literacy and Inclusion**

Social Class	Financial Literacy (%)	Financial Inclusion (%)
General	28	18
Scheduled Caste (SC)	13	06
Scheduled Tribe (ST)	19	4
Other Backward Castes (OBC)	23	13

Source: National Centre for Financial Education National Survey



**Discussion:** As just like other demographic characteristics, Social class segment is also shows that more of financial literacy than financial inclusion. General category having more financial literacy as compared to remained categories of social class. Other backward caste, Scheduled caste and tribes are also largely supported by the financial regulators in India but still need to be prioritised.

**Conclusion:**

To sum up, financial education is a main determinant which effects on achieving of greater financial inclusion. Financial literacy rates are relatively higher than financial inclusion rate in all the demographic

aspects of Karnataka. But in the case of Private and Government salaried employee's rate of financial inclusion is higher than their financial literacy rate. This opposite result concludes that increased earnings may result increase the financial inclusion level but not the financial literacy level.

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