

# A STUDY ON FINANCIAL LITERACY – AN ESSENCE OF FINANCIAL INCLUSION

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**Abstract :** According to Bernanke: “Helping people better understand how to borrow and save wisely and how to build personal wealth is one of the best things we can do to improve the well-being of families and communities.” The frequently overlooked poor also require a range of financial services like opportunities to earn, to protect the income earned, credit facilities, risk avoiding services like insurance, transfer of money etc. Poor families are not able to obtain wealth primarily because of two reasons, first being the absence of proper financial services (financial inclusion) and second being the dearth of knowledge of finance (financial illiteracy).

Financial inclusion has come up as a preference for policy makers and regulators across the world in the war against poverty. Financial Literacy is the most essential part of the financial inclusion, as without having the knowledge of the basics the disadvantaged people would remain to be innocent and careless. Financial Literacy would encourage these people to save, access credit, usage of the funds, earn income to get a better livelihood and therefore become a part of the mainstream from the exclusion. This paper highlights the initiatives taken by the Indian banks to attain the financial inclusion in the country, the role of financial education in reducing the financial exclusion and promoting financial inclusion in the country.

**IndexTerms-** Financial Inclusion, Financial Education, Financial Literacy, Indian Banks.

## I. INTRODUCTION

OECD (Organization for Economic Cooperation and Development) describes Financial Literacy as a mix financial awareness, skills, Knowledge, attitude and behaviour required to make important financial decisions and eventually accomplish individual financial well-being. People attain financial literacy through a mechanism of financial education.

OECD describes Financial education as” themethods by which financial consumers/investors enhance their knowledge of financial products, concepts and risk, instruction and objective advice, cultivate the skill and confidence to become more conscious of financial risks and opportunities, to make proper choices, to understand where to go for help and to take productive actions to enhance their financial well-being”.

According to sanchayan financial literacy is abroad issue, which can:

Assist the poor and disadvantaged people to gradually move out of poverty.

Youth and children to gain knowledge of the fundamentals that will last for a longer period.

Adults to take proper financial decisions at each point of time.

It gives awareness and knowledge of financial market products, in order to make proper choices. An individual normally has definite resources and skills to acknowledge the complicatedness of financial dealings with financial intermediaries on a regular basis. Therefore financial literacy is the ability to understand, check and efficiently use financial resources that will help the individual ti improve the well-being and security of himself, his family and his business.

## II IMPORTANCE OF FINANCIAL LITERACY

Here the main question is “ If a person has no idea for what he needs money for or how to use it, how the products and services would solve the purpose of that person?” Financial literacy gives the knowledge, skills and confidence to profitably carry out the financial transactions faced in everyday life. It involves the ability to know the financial choices, plans for the future, spend carefully and handles the challenges related with the life events such as job loss, retirement savings, expenses for a child’s education. The OECD dedicated a chapter of its 2005 publication to the significance education for bringing the people who direct and indirect advantages for the unbaked:

- Enhanced knowledge of mainstream financial services and support to refrain non-standard services.
- Proper knowledge of risk and advantages of financial services such as credit.
- Less cost of information search for the unbanked.
- More household savings.
- Safeguard against immoral, unfair practices such as predatory lending.
- Less cost of money transfers.

### III FINANCIAL INCLUSION

Financial inclusion by way of access to formal financial system is very important for the economic upliftment of the common man. It can be defined as the delivery of the banking and financial service at a reduced cost to the people who don't have an access to the financial services and also belonging to the low-income groups. Through credit is the most significant element, financial inclusion different financial services such as saving, insurance, payment and remittance facilities by the formal financial system. Commercial banks operating in the region are the providers of such facilities.

#### Financial Inclusion and the Indian Banks

The increasing global focus on the financial inclusion shows the concern of governments and central banks by bringing the people into the banks and financial services are provided to them. The main target of the inclusion effort is the unorganized sector, which continues them. The main target of the inclusion effort is the unorganized sector, which continues financially excluded by enlarged. Hence it is difficult to cover, the size of the business provided to by the sector is commercially not important, the economic value addition by the sector is nit high and therefore loans provide would turn into non-performing assets due to high default rates.

The commercial banks in India are presumed to be profitable in their trade as they are the chief protectors of the wealth of the citizens of India. At the same time the apex bank, i.e. Reserve Bank of India has been circulating guidelines to the commercial banks to encourage the process of financial inclusion throughout India, with main focus on the states, which are economically underdeveloped. Therefore the commercial banks will pay a dual role. On the one hand it has to raise it profitability and on the other part it is also predicted to serve a social cause by brining the poor and unimportant people into the financial circle. It has become mandatory for the commercial banks to expand their range, offer different type of products to the poor and marginalized and continue profitable at the same time.

RBI has allowed and suggested the use of some other channel of encouraging financial inclusion or the commercial banks such as including the Self Help Group (SHGs), Microfinance institution (MFIs), Regional Rural Banks (RRBs), Non-Commercial Banks such as National Bank for Agriculture and rural development ( NABARD ), Non Governmental Organizations (NGOs), Joint Liability Groups (JLGs), Co-operative banks, Other companies in the financial sector such as Non- Banking Finance companies (NBFCs), Mutual Fund companies and insurance companies will pay a key role in the method of financial inclusion throughout India. Now commercial banks are involved in selling of financial products such as insurance, mutual funds, stocks and derivative products. Therefore it is quite clear that banks have taken the marketing position of the insurance companies. Deliveries of banking service now actually mean the delivery of all type of financial service to the poor and marginalized in alliance with the other companies.

#### Financial Inclusion Initiatives

In order to provide growth momentum to the key sectors of an economy and mainly to insure access to economical financial service to the low-income class in the country, the Reserve Bank of India circulated different instructions to the banks to bring in comprehensive growth through financial inclusion like:

To open 'No-Frills' saving accounts with less or nil minimum balance and also the charges for opening and managing the account.

Relax 'Know Your Customer' (KYC) norm for opening a bank account with self-declaration of address and introductions holder of a bank to expand the outreach of the bank accounts to the low income people.

In order to insure smooth credit flow to the individual recipients of the rural families banks have been asked to propose 'General purpose Credit' facility. The holder of these cards will be entitled to credit up to 25,000 on revolving system basis at their rural and semi-urban branches.

Banks were advised to adopt a easy system for one time settlement of overdue loans up to Rs25,000. Moreover banks were asked that the responsible beneficiary shall be considered fit for fresh credit after one time settlement.

In order to attain greater degree of "Financial Inclusion" banks were permitted to effectively use the service of Non-governmental organizations( NGOs), Micro-Finance Institutions, Self- Help Groups (SHGs) etc.

A strategy was made to attain the financial inclusion in the country. Bank were assigned the districts and were instructed to attain "Full Financial Inclusion" in the recognized districts by opening' No- Frills Accounts and issuance of GCC etc.

### IV CAUSES OF FINANCIAL EXCLUSION AND ROLE OF FINANCIAL EDUCATION

**Regulatory Constraints:** Some national regulatory framework restrict the ability of the financial providers to draw the attention of the new clients. The rules of KYC may unjustifiably affect the supply of the products to youth and migrant workers.

**Infrastructure and Connectivity Barriers:** New solution to financial inclusion are reliant on technology like mobile phones, computers etc. The groups where hardware is short in supply, electricity is unavailable, network are limited are likely to be excluded.

**Geographical and Physical Barriers:** Opening branches in the rural or low-profit areas is not a feasible option for the bank. Due to the poor infrastructure banks face difficulties in sending and storing cash in remote branches which decrease the productive supply of financial services.

**Exclusionary Actions of Service Providers:** It involves charging high fees for transactions, need of high minimum balance, avoiding access to those with no credit card etc.

**Various Demand Side Factors that lead to Exclusion are:**

**Low level of Financial literacy:** Lack of knowledge of various types of financial products, poor understanding of their use and likely costs, decrease the demand for relevant products.

**Cultural and Physiological Barriers:** Personal and cultural preferences and religious thoughts can restrict the number of financial products an individual demands. Lack of faith in financial service providers can create a hurdle to financial inclusion.

**Linguistic and Financial Barriers:** Large number of population. Various language and cultures with illiteracy play as a big stumbling block to financial inclusion. The challenge is to make the people financial literate.

**Reduced Social and Technological Inclusion:** Lack of awareness of the technology such as use of ATM, Internet, mobile banking will create a hurdle to access the financial products. Biasness against certain group based on caste, status, income, gender, language etc. Has also been recognized as a hurdle to financial inclusion.

**Financial Vulnerability causes by Circumstances:** Shortage of money, no credit history, unemployment and low income creates a hurdle to access financial products. In such situations people often move to informal service providers like moneylenders for their financial requirements, which further move them into poverty.

#### **Financial Education Policies for Financial Inclusion**

The rising global interest in financial education for inclusion is visible in national policies, framed to hand both demand and supply side financial inclusion and reduced levels of financial literacy. India clearly connects financial education and financial inclusion at all points of its draft National Strategy for Financial education, saying that its mission is to initiate large finance education campaigns to supports people to manage money more efficiently to attain financial well-being by accessing relevant financial products and service through governed with fair and clear machinery for consumer protection and grievance redressal. (Reserve Bank of India and Securities and Exchange Board of India, 2012).

RBI has recommended bank that there should be at least one Financial Literacy Centre in all the districts (640+) throughout the country. These centre need to conduct outdoor financial literacy camps at least once in a month. So far the banks have development 650 FLCs. Moreover every rural branch (35000+) needs to conducts a financial literacy camp al least once in month.

#### **V CONCLUSION AND SUGGESTIONS**

Financial Inclusion and Financial Literacy are related to each other. They are two components of integral strategy. Financial inclusion gives access and financial literacy gives awareness. The focus of the strategy at the fundamental level is to make people aware of the basic financial products, as it would be a challenge to connect large number of financially excluded people to the formal financial system. Disadvantaged people require access and awareness of financial services.

For this purpose the focus of the financial literacy should be mainly directed towards distribution of easy messages of financial diligence in a native language through huge campaigns across the country linked with vigorous role out of financial inclusion plans by banks, insurance, pension funds and others. The strategy should be comprehensive-vigorous involving individuals, financial sector regulators, NGOs, financial sector companies, various international players and central and State Government.

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