

ROLE OF FINANCIAL LITERACY IN ACHIEVING FINANCIAL INCLUSION

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Abstract: Objectives of the Study: *The purpose of this paper is to examine the role of financial literacy in the realization of financial inclusion in India. If we analyze the financial inclusion, we will found that achieving the financial inclusion is based on two pillars - demand side and supply side. Where availability of the financial products in the market is very important, equally important is the fact that people are aware of them and they are in a situation to demand those products. In this context, financial literacy among the masses is very important, so that people have the awareness about the financial climate and financial products. This will increase their capability to demand for the financial products. This way, it can achieve the target of financial inclusion.*

Research Methodology: *The research work is based on the secondary data. These data are obtained from RBI publications, research papers and text books. It also uses secondary data from various other sources- newspapers, journals and periodicals like Economic Times, Business Line, Micro-Finance world etc.*

The study is designed as follows:

In section-1 we introduce the concept of financial inclusion. An attempt is made to understand meaning, role and importance of financial inclusion. Section-2 will describe the link between financial inclusion and financial literacy and the various facets of it. In section-3 we provide our conclusions and some suggestions.

Findings: *Financial inclusion is an attempt to achieve the ultimate objective i.e. inclusive growth. Financial inclusion is an important constituent of this, because a financially deprivation is a very big deterrent of a person's overall development. Our study reveals that the final answer of financial inclusion rests on both sides-demand side and supply side.*

It is now, becoming increasingly apparent that addressing the problem of financial exclusion will require a holistic approach in creating awareness about not only on credit management but on financial products, education, debt counseling, savings and advice on money management.

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Significance of the Work: The research work addresses important aspects like financial awareness, education, debt counseling, etc which can contribute to attain our goal of financial inclusion.

Keywords: Financial inclusion, financial literacy, Financial Products.

INTRODUCTION

World over financial inclusion is considered as a great tool of poverty eradication and maintaining social balance. It can be defined as a process of access of financial services and timely and adequate credit facility which is needed by weaker sections and low income group at an affordable cost. Although credit is considered the most important component, financial inclusion is not only credit dispersions', its, about connecting the banking system with the vast sections of people so that they can avail a whole set of financial services such as savings, insurance and remittance facilities as well as access to payment system.

Though financial inclusion is great tool itself, it is also aligned to a bigger strategy of inclusive growth. Inclusive growth is related with the idea of basic need and equity. It is working towards the objective of attaining a society where there is no disparity among the people and nobody is deprived either socially or financially. Financial inclusion is a great support of this because largely overall development of any individual is dependent on its financial conditions.

LITERATURE REVIEW

Leeladhar (2005) has suggested that financial inclusion is related with access of banking services. Satish R A and Patil P A opined that financial exclusion is fueled by lack of access of financial resources and one of the prime reason of this inaccessibility is illiteracy. Pravat Kumar Kuri & Arindam Laha (2011) identified the inherent factors that are responsible for presenting obstacles in availing the financial services and thus aggravating the access the of financial services in rural West Bengal. Drexler, Alejandro View Profile; Fischer, Grege; Schoar, Antoinette (2014) Suggests that financial literacy is required to make financial decision. Several empirical studies suggested that financial services/banking facilities increase the financial inclusion and awareness plays a very important role in it Arya, Purushottam Kumar; Laheri, Vishal Kumar; Sharma, Shweta (2015).

Objectives

1. Emphasize the Importance of Financial literacy in Financial inclusion
2. Various Aspects of Financial Literacy
3. Provide some suggestion to increase Financial literacy

RESEARCH METHODOLOGY

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Meaning, Role and Importance of Financial Inclusion

There is a need to interpret the term "financial inclusion" in a relative dimension. Depending upon the stage of development, the meaning of financial inclusion differs among countries. In India, having a bank account is considered as basic criteria of financial inclusion. This approach assumes that a bank account enables poor household to perform important financial functions such as saving money, accessing credit, making loans or payments and transferring money.

Here, in India, financial inclusion can be defined as "access of banking services to vast section of disadvantaged and low income group at an affordable cost". But non-payment of utility bills through banks may be considered as a case of financial inclusion in case of developed economies.

The importance of financial inclusion is lying in the fact that it is a basic need and critical ingredient of inclusive growth, which is our ultimate goal. It is the financial condition of a person which largely defines the overall development of theirs.

But if we go through the data, we will find that in comparison to the world, in India, large section of population is still not under the preview of financial inclusion. It means not only they have any financial support from formal sector even they do not have access of financial services. This financially excluded section largely comprises urban slum dwellers, migrants, marginal farmers, landless laborer, self-employed and unorganized sector enterprises, senior citizens and women, ethnic minorities and socially excluded groups.

Financial Inclusion and Financial Literacy

We have already seen that in comparison to the rest of the world the number of financially excluded household is more in India. In absolute terms also, more than 42% households are financially excluded.

Table 1
Comparative analysis of financial inclusion in India vs. World

		Key Statistics on Financial Inclusion in India: A Survey (Per Cent)										
Share with an account at a formal financial institution		Adults saving in the past year	Adults originating a new loan in the past year	Adults with a credit card	Adults with an outstanding mortgage insurance	Adults with paying personally for health	Adults using mobile money in the past year					
All adults	Poorest income quintile	Women	Using a formal account	Using a community-based method	From a formal financial institution	From family or friends						
1	2	3	4	5	6	7	8	9	10	11	12	
India	35	21	26	12	3	8	20	2	2	7	4	
World	50	38	47	22	5	9	23	15	7	17	7	

Source: Asli Demircuc-Kunt and Klapper, L. (2012): 'Measuring Financial Inclusion', Policy Research Working Paper, 6025, World Bank, April.

Table 2
Position of Households Availing Banking Services

<i>Household</i>	<i>As per Census 2001</i>			<i>As per Census 2011</i>		
	<i>Total number of households</i>	<i>Number of households availing banking service</i>	<i>Percent</i>	<i>Total number households</i>	<i>Number of households availing banking services</i>	<i>Percent</i>
Rural	138,271,559	41,639,949	30.1	167,826,730	246,692,667	54.4
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: An Overview on Financial Inclusion, July, 2013, Dept. of Financial Services, Ministry of Finance, Government of India.

If we analyze the problem of financial inclusion or exclusion we will find that it is related with access as well as use of it. Access essentially refers to the supply of services whereas use is determined by demand as well as supply. So, we need to address the issue with both sides- demand side as well as supply side.

Where supply side is related with financial institutions- banks, financial markets and services, appropriate design and availability of products and services equally important is demand side which is concerned with financial literacy, knowledge of products, need for total products and services and credit absorption capacity.

In this context, if there is financial literacy or education in the masses, it will help immensely to improve the condition. There are several direct and indirect benefits of financial education to the financially excluded households :

- Reduced cost of information search for unbanked
- Deeper understanding of risks and benefits associated with the financial products and services
- Knowledge of financial products and services available in the market
- Higher household saving
- Protection against unfair, discriminatory practices
- Insurance and remittance facilities including access to payment system.

CONCLUSION

We could conclude that there is greater need of increasing the efforts to develop well designed financial education strategies and adequate financial consumer protection measures along with supply-side initiative to stimulate financial inclusion.

SUGGESTIONS

We suggest some policy prescription for financial education:

- Those, who are given the responsibility of financial education, should be properly trained and they should be given adequate incentives.
- The role of intermediaries is very importance as they have the access to the target group. Care should be taken that their objectives are aligned with the financial education goal.
- The content of the education support is such that they are relevant as well as understandable to the target group.
- There should be detailed understanding of target group among the educators, so that they can better serve the purpose.
- Educating the whole family is better than educating an individual as it helps them to take decision.
- Financial education can also be imparted with help of competitions and other innovative ways like nukkadnatak etc.
- It should be promoted by organizing fair especially in rural and remote areas.

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