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Assessment of Financial Literacy and Financial Inclusion among Rural Households: a Case Study of north coastal Andhra Pradesh

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Abstract:

Financial Inclusion and Financial Literacy undoubtly are among the buzzwords originated in India with the beginning of the 21st century and reached the vocabulary of social, economic, and political world of the country in a quick way. The economic status of India requires capital formation via saving and investment, with a view to achieve this aim a properly planned, promoted, and channelized pattern of investment among the rural households are required. To achieve higher rate of growth coupled with relative price stability, the propensity to save needs to be raised by proper policies and incentives. Truly speaking, Financial Literacy talks about the possession of knowledge and the set of skills that enable the people to make well informed and effective financial decisions within the ambit of their financial resources. Financial Literacy, as such, is understanding an education of different financial areas related to the management of personal finance, money and investing etc. In simple words, financial Literacy can be defined as measuring how well an individual understands and uses personal finance related information. Both Financial Literacy and Financial Knowledge are regarded as human capital. But Financial Literacy carries an additional application dimensions which implies that an individual must have the ability and confidence to use his/her financial knowledge to make financial decisions. Financial education is merely an input intended to increase a person's human capital, specifically financial literacy. A well-designed financial literacy instruments that adequately captures personal finance knowledge and application is expected to provide insights into how well financial education improves the human capital required to behave appropriately to enhance financial well- being. In this paper financial literacy assistance to financial inclusion has been calculated with special reference to north coastal Andhrapradesh.

INTRODUCTION:

Financial Literacy talks about the possession of knowledge and the set of skills that enable the people to make well informed and effective financial decisions within the ambit of their financial resources. Financial Literacy, as such, is understanding an education of different financial areas related to the management of personal finance, money and investing etc. In simple words, financial Literacy can be defined as measuring how well an individual understands and uses personal finance related information. Both Financial Literacy and FinancialKnowledge are regarded as human capital. But Financial Literacy carries an additional application dimensions which implies that an individual must have the ability and

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confidence to use his/her financial knowledge to make financial decisions. Financial education is merely an input intended to increase a person‟s human capital, specifically financial literacy. A well-designed financial literacy instruments that adequately captures personal finance knowledge and application is expected to provide insights into how well financial education improves the human capital required to behave appropriately to enhance financial well- being. It is therefore evident, that enhancement in financial literacy is expected to support social inclusion and enhancing the well-being of the community. Financial Literacy is equally recognized in a growing manner in the industrialized economies as an important tool for consumer and financial services, that include person living in low income households. Financial literacy is keenly linked with consumers‟ financial activities and therefore it is increasingly recognized and deliberated on the significant international platforms such as Organization for Economic Cooperation and Development (OCED),G20 etc. however, financial literacy help the households under low income group towards improving the quality and efficiency of financial services. As a matter of fact, consumers require to hold a certain level of financial understanding with a view to compare and evaluate various financial products. It can be further added that financial literacy makes people capable to take better financial decisions to understand and appreciate various rights and responsibilities of financial products and to assess and manage risk. According to a study made by Saurabh Kumar (2013)4 , India stands at the bottom among 16 countries in the Asia-Pecific Region with 59 index point as per the annual Mastercard Index for Financial Literacy. It is worth mentioning that the overall financial literacy in case of Bihar State is estimated to be 8%5 which is comparatively much lower than the eastern zonal literacy level i.e. 15%6 as well as national level rate i.e. 20%7 . This score is however derived from combing scores of Financial Attitude, Behavior and Knowledge. It is also significant to mention that some other terms and names such as financial capability, financial empowerment, debt literacy, financial knowledge, economic literacy etc. have sometime been used interchangeably for financial literacy According to an established definition, "Financial Literacy is the ability to make informed judgements and to take effective decisions regarding the use and management of money. Financial Literacy is therefore a combination of a person‟s skills, knowledge, attitude and ultimately their relation to money" (ANZ Bank, 2011)8 Broadly speaking, Financial Literacy carries with it three distinct and dependent components: - Core Competency, Proficiency and Opportunity. Core Competency talks about skill and traits including Numerical ability, Budgeting and Living within means, Saving, Borrowing, Investing and so forth. Proficiency deals with Financial Knowledge, Application of knowledge skill and confidence, Attitude and Motivation. However, a Financially Literate person should have the opportunity to acquire skills and use them. Following Liberalization and globalization of financial services on account of deployment of information technology and effectiveness of regularity framework in India. A number of financial literacy initiatives have been taken by the RBI, NABARD, Post office, NGOs, SEBI, IRDA, PFRDA etc.

STATEMENT OF THE PROBLEM:

Financial Literacy refers to a set of skills which enable people to wisely manage their money along with some knowledge of financial concepts. The aforesaid skills enable the people to make right financial choices. Financial awareness and education are therefore the most powerful antidotes against risky investment traps. Financial Literacy could, in simple words, be defined as measuring how well an individual can understand and use personal finance-related information. Both financial literacy and financial knowledge are regarded as human capital. Some of the major efforts made in the last five

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decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD accounts, etc. But still the gaps in the practicability of banking services in rural areas can easily be visualized. And the basic reason behind this disappointing situation is the lack of financial literacy among majority of the rural households.

OBJECTIVES OF THE STUDY

1. To study the key socio-economic and demographic profile of the respondent selected for the study.

2. To assess the various dimensions of Financial Literacy and measure the status of Financial Literacy among the selected respondents based on demographic and socio-economic profile of respondents.

3. To assess the level of financial inclusion across various demographic and socioeconomic profiles of the respondents.

HYPOTHESES OF THE STUDY:

H0 1: There is no significant association between Financial Attitude and socioeconomic and demographic factors.

H0 2 : There is no significant association between Financial Behavior and socioeconomic and demographic factors.

H0 3 : There is no significant association between Financial Knowledge and socioeconomic and demographic factors.

RESEARCH METHODOLOGY:

The intent of this section is to throw light on the glimpses of research methodology which is adopted by the researcher for this research study. There are off course infinite number of ways to conduct an investigation in the area of financial inclusion and several other disciplines as well. The method of investigation to be used depends on the specific problem, and almost every stated problem is different in some respects from previous problems.

The present study is based on both primary and secondary data. A wellstructured blueprint has been designed for sampling design methods of data collection and framework for data analysis as well as interpretation. The research design adopted is sandwiched of descriptive as well as empirical methods. The chapter is divided into various sections each focusing on distinct aspects of research methodology adopted by researcher for the present study.

Sample Size Determination:

The population for the study is very large so the sample determination for the study is computed from Cochran‟s “Sampling Technique” book written by W.G Cohran found to be most pertinent source to derive the suitable size of sample for this study.

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The study determines appropriate size of sample using Cohran (1977)32 formula for population that are large. The developed equation takes the following form. n0 = Z2 * p * (1-p) / e2 Where, n0= the sample size Z 2 = confidence level at 95% (standard value of 1.96) p= population proportion e=margin of error at 5% (standard value of 0.05) n0 = (1.96)2 * 0.5 * (1-0.5)/ (0.05)2 = 384 Finite population correction for the proportion: n= n0/ 1+ (n0-1)/N n=adjusted sample size N=the population size N0=the initial sample size 384-1)/804694(1+/n= 384 =383.85 =384 The sample size was 384 respondents from the rural households of selected villages. The final sample size of 380 respondents were practically possible due to elimination of partial responses and unwillingness to responses to the questionnaire.

Accessibility to Formal Financial Institution

BLOCKS	VILLAGES	RESPONDENTS								
		YES				NO				
		N	% of YES	Total 0f (n=218)		N	%	Total of (n=102)		Total of Blocks
Visakhapatnam	narsipatnam	54	24.8	80	36.7%	28	27.5	38	37.3%	118
	tagarapuvalasa	26	11.9			10	9.8			
Vizianagaram	Bobbili	31	14.2	73	33.5%	9	8.8	27	26.5%	100
	Cheepurupalle	42	19.3			18	17.6			
Srikakulam	Palakonda	59	27.1	65	29.8%	31	30.4	37	36.3%	102
	Tekkali	6	2.8			6	5.9			
Total of all respondents		218	100	218	68.1%	102	100	102	31.9%	320

The above table give a brief description of the sample respondents regardingaccessibility to formal financial Institution. It is found that out of 320

Frequency of Visiting

Bank

S. No	Frequency of visiting Bank	Respondents	Percentage
1	Monthly Basis	12	5%
2	Quarterly Basis	41	19%
3	Six-monthly Basis	72	33%
4	Yearly Basis	54	25%
5	In two years	39	18%

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6	Respondents who owned account in Bank	218	100%

The above Table and graph indicate the frequency of visiting the banks by the sample respondents for availing various types of financial services. Out of total respondents who have account ownership(N=218),33% of the respondents visits the bank once on six months,25% of the respondents visit the bank on yearly basis, 18 % of the respondents visit the bank once in two years or more,19% visit on the quarterly basis and only 5% of the respondents visit the bank on monthly basis.

Prudent Reasons for not Holding Bank Account

S.No	Prudent Reasons	Responses	Percentage
1	No need felt	22	7%
2	Not enough money	65	20%
3	Using family members‟, A/c	21	7%
4	Bank are too far	12	4%
5	Lack necessary Documents	32	10%
6	Lack of trust on Bank	34	10.63%
7	Difficult process	38	12%
8	Lack of cooperation from bank	16	5.00%
9	Pre-dominant informal sources	51	16%
10	Others	29	9.06%
	Total Respondents	320	100%

There are various prudent reasons pointed out by the respondents for not having bank account in formal FIs though aware of it.

The most practical reason pointed out by the 20% respondents is that they don‟t have enough money followed by 16% of respondents still dependents on the informal sources for availing financial services. 10-12% of the respondents do not have proper documents and they feel that process of opening bank account is difficult and complex.4% of the respondents feels that bank is too far and 5% felt lack of cooperation from the bank.7% of the respondents are using family members account and almost 10% of the respondents givens reasons not clarified.

Prudent Reasons for not Availing Remittance Facility

S.no	Prudent Reasons	Responses(N)	Percentage

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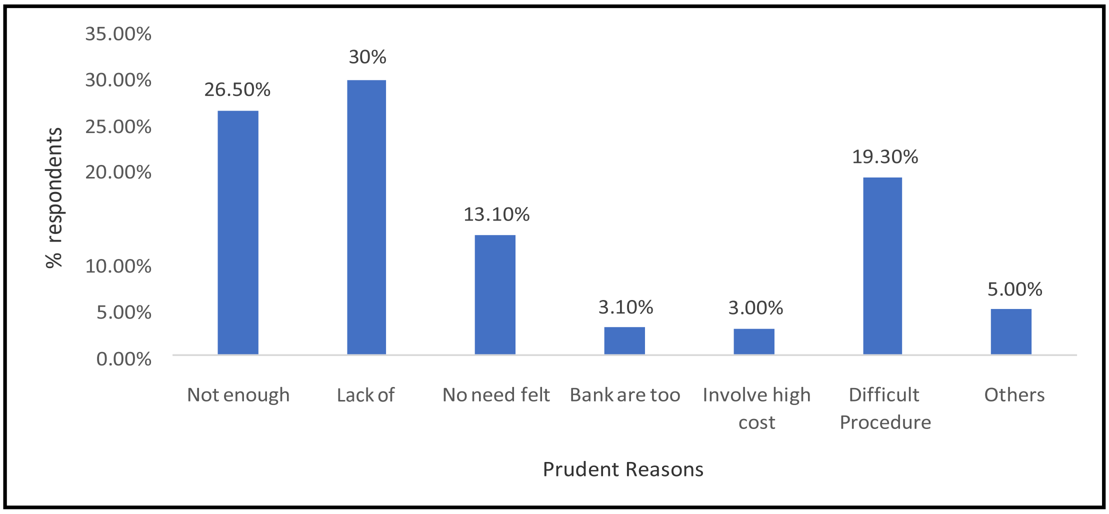
1	Not enough Money	85	26.50%
2	Lack of knowledge	96	30%
3	No need felt	42	13.10%
4	Bank are too far	10	3.10%
5	Involve high cost	7	3.00%
6	Difficult Procedure	62	19.30%
7	Others	18	5.00%
	Total Respondents	320	100.00%

Prudent Reasons for not Availing Remittance Facility



The main reason for not availing remittance facility by the bank is lack of knowledge. Almost 30% of the respondents are not aware of various types of remittance facility provided by the bank. Almost one-fourth of the respondents do not have enough money. Nearly 20% of the respondents revealed that process is very difficult for them. Rest 3-6% of the respondents reveals that bank is too far,remittance involves high cost and other reasons for not availing remittance facility from the bank.

Variables in the Equation

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		B	S.E.	Wald	df	Sig.	Exp(B)
Step1 [a]	Financial Literacy	.664	.081	67.851	1	.000	1.942
	Constant	-8.442	.960	77.313	1	.000	.000
a. Variable(s) entered on step 1: Financial Literacy							

The variables in the Equation output gives us the Exp(B).this is better known as odd ratio.it reveals that everyone unit increase in financial literacy would increase the probability of higher financial inclusion with 1.942 rate. The results of the findings are consistent with the findings of Atkinson (2013) , reveals that higher financial literacy leads to higher financial inclusion. Grohmann et. al (2017) also documented that Financial knowledge in terms of improved numeracy skill and financial literacy are highly correlated. High numeracy skills have a direct effect in increasing the level of financial inclusion. „higher financial literacy is systematically related to better financial inclusion".

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