CHAPTER VI
SUMMARY, FINDINGS, SUGGESTIONS AND CONCLUSION

This chapter contains a summary of the study, its findings, suggestions made by the researcher and the conclusion of the study.

6.1 Summary

About 2.9 billion people around the world do not have access to formal sources of banking and financial services. In India alone 560 million people are excluded from formal source of finance, a figure in tight correlation with the 41.6 per cent (457 million) of the populace that still lives below the poverty line (US$1.25/day). While India has enjoyed growing domestic demand and globally recognized prowess in the areas of information technology, automotive, life sciences, telecommunications and even space exploration, its continued success and growth as an economic power (in common with other emerging economies) can only be assured if concrete steps are taken to ensure that the social and economic development is inclusive. The importance of financial inclusion to national economy is evidenced by the support of individual governments as well as international bodies given to the Indian government.

Financial inclusion, an endeavour in India aims to ensure that a range of appropriate financial services are available to every individual, thus enabling them to understand and access these services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc.

In order to increase banking penetration and promote financial inclusion, the Reserve bank of India on march 31, 2010 asked both public and private sector banks to present their financial inclusion plans for the next three years to target number of villages with a population of at least 2000 that are without banking
facilities. For India and other emerging economies, where more than half the population do not have a bank account, renowned economist Agarwal's study has a message: “You can't pull the nation forward with the single horse of financial inclusion; you must ride in tandem with financial literacy also”. Financial literacy also involves analysing how consumers use savings, investment and debt management techniques in their personal finances. Any executive involved in an industry where consumer financial behavior is important, will find this useful. From a consumer point of view, they can learn how to make better financial decisions. A firm can learn which kinds of consumers make better decisions and which cannot. They can better select the types of customers who have a good chance of success within their business model. Financial counseling is an important tool in educating consumers in their decision making process.

Today's financial world is highly complex when compared with that of a generation ago. Forty years ago, a simple understanding of how to maintain a savings account at local banks and savings institutions may have been sufficient. Now, consumers, especially rural citizens, must be able to differentiate between a wide range of financial products and services, and providers of those products and services. Previously less-indebted generations may not have needed a comprehensive understanding of such aspects of credit as the impact of compounding interest and the implications of mismanaging credit accounts.

Increased consumer awareness as to the necessity of financial education and how they can access it is needed. Financial education is not just for investors. It is just as important, if not more so, for the average family trying to balance its budget and save for the children’s education and the parents’ retirement. More needs to be learned about the financial education, needs of consumers at various stages in their lives and how financial education programmes can be designed to best address these needs.
Based on the discussion made, the current study aims to gather data on the level of financial literacy gained by the rural masses in India in general and with special reference to the study area Coimbatore District and it also focuses on the success rate of financial inclusion measures initiated by the RBI for the rural masses. To fulfill the basic aim of the study concept the following objectives are framed: to draw an insight into the socio-economic condition of the rural masses in Coimbatore District and to correlate their income, expenditure and savings pattern, to analyse rural households' level of awareness towards saving modes and investment media, to critically evaluate influences of various factors that determine their current savings/investments, to analyse the investment behaviour based on the risk patterns and to analyse the perception of the rural investors towards the availability of modern financial services to them in their region.

The research methodology of the study consists of two stages – explorative and descriptive in nature. Coimbatore District has been chose as the study region. Literate rural masses were considered as the survey population. Out of 18,90,200 in all the villages who were observed to gain basic literacy, only 5750 persons have studied above 10th standard. These persons are taken for the present study. A Questionnaire has been sent to all of them, but only 3200 filled in the questionnaires and returned them to the researcher. Out of 3200, only 2050 questionnaires have been used for the study. The remaining questionnaires have not been filled in properly and correctly and hence they are not usable. The study is principally based on the primary data and secondary data collected from the RBI bulletin, NSO (National Sample Survey) Information Bulletins, research works published in the journals and magazines and also published and unpublished Ph.D thesis.
6.2 Findings

The major findings of the study are summarised in this section of the study.

I. Savings and Investment Practices among Indian Households

- Overall growth of the household savings in terms of currency sector stood by ₹ 885577 crores on an average between 2000-01 to 2009-10. The average household savings with the banks stood at ₹ 390165.50 crores. The non-banking companies deposit on the household sector during 2000-01 to 2009-10 registered at mean value of ₹ 9305.20 crores indicate a negative growth rate of -10.87 in the household saving in terms of deposits. Household savings in terms of debt was valued at mean value of ₹ 6071 crores.

- Household savings in private company shares and debentures leaving a standard deviation value of 20564.27. The co-efficient of variation was 83.67 per centage with a compound growth rate of 28.82. Household savings in Government securities and in form small savings stood on an average of ₹ 58,809 crores. The average state insurance investment was ₹ 31021 crores. The average household contribution to provident fund and pension was recorded at ₹ 958758 crores during the study period. The average household contribution to other savings/investment medium was recorded at ₹ 580333 crores between 2000-2010.

II. Socio-Economic Status

- It has been observed that majority i.e., 26.30 per cent of the rural household surveyed were aged between 25-30 year and 16.20 per cent them were male. It has been found that 79.46 per cent of the respondents were married.

- It has been observed that out of 2050, 16.60 percentage of the respondents were agriculturists and further it has been observed that 24.40 per cent of the sample population has completed their high school level education.
• From the study it has been observed that 35.12 per cent of the respondents have only one earning member in the family. It is evident from the study that 47.41 per cent of the surveyed rural families have two dependents in their family. Further, it has been observed that 41.56 per cent of the respondents were working in villages.

II. Components of Household Income and Expenditure

• From the study it has been observed that 66 per cent of the respondents were residing in their own houses and 55.37 per cent of the respondents' source of income is their salary. It has been found that 66.10 per cent of the respondents do not have any additional source of income.

• It has been observed that 58.34 per cent of the respondents plan a formal budget to meet out their household income and expenditure. From the detailed analysis it has inferred that food is the primary household expenditure for the rural masses. The food has secured first rank with a mean score of 2.663.

• From the study it has been cleared that 40.44 per cent of the respondents' monthly savings ranges between 10-15 per cent of their monthly earning. Results of Pearson’s correlation indicates a poor correlation between the saving/investment and expenses met by the rural households residing at Coimbatore.

III. Level of Awareness and Factors that Influenced Investment Behaviour

• From the elaborate data analysis it has been inferred that the rural households in the study region have gained reasonable knowledge on the various savings and investment medium. But it is very ironical to assess that their knowledge is very much limited to the traditionally known savings and investment avenues like bank saving, holding insurance policy,
investment in equities, gold or in land/building. The sample population’s knowledge on the modern and market sophisticated investment avenues is very much limited.

- From the data analysis it has been inferred that there exists a positive correlation between savings in bank i.e., in the form of fixed deposits, respondents' awareness towards public provident funds and National Saving Certificates. Though the association between the other variables is significant, it depicts a very poor correlation between intra-inter variables tested.

- It is inferred with the help of Chi-Square test that there exists an association between rural investor level of awareness towards various savings/investment avenues and their socio-economic status.

- It has been observed that 29.31 per cent of rural households have gained knowledge about saving/investment avenues through business channels. From the study it has been concluded that safety of money has been recorded as the primary factor that has influenced the rural masses to save, and it has secured first rank with an average score of 4.02.

- From the results of reliability test it has been concluded that there exists no uniformity in the investor's level of perception towards various factors that influence them in selection of savings/investment medium.

- It has been observed that 40.15 per cent of the respondents give primary importance to the safely of the principal money they invest before selecting savings/investment avenue.

- From the study it has been cleared that 53.56 per cent of the investors prefer to invest in medium term investments which comprises of 1-5 years. It has been observed that 44.39 per cent of the rural investors prefer their investment to grow on an average rate and 35.28 per cent of them wish to create wealth out of their savings and investment.
IV. Investment Behaviour

- It has been observed that most of the respondents have to part with their income for the savings and investments for Rs.1001-3000 every month.

- Majority of the respondents have been comfortable with savings in fixed deposits, chits, post office etc. They are observed to more averters than risk takers.

- The results of Chi-square test confirm that there exist association between investment experience of rural masses and their age.

- It has been found that 48.63 per cent of rural population holds savings accounts that are considered as safe and low risk avenue of holding liquid money. It is inferred that 73.46 per cent respondents have invested in life insurance policies. It has been further observed that majority i.e., 57.07 per cent respondents have taken higher risk in investing in equity shares market.

- Majority i.e., 53.17 per cent respondents have invested in gold/silver, which are considered as popular traditional investment avenues. It has been inferred that 62.63 respondents have evinced interest in investing in virtual real estate business.

- Kendal's Coefficient of Concordance Test was performed to measure the association between the savings perceptions exhibited by the sample rural household investors.

- It has been found that the priorities of investment purpose by one investor significantly varies from that of the other investors.
V. Perception towards the Financial Service Availability

- It has been understood from the elaborate data that 37.22 per cent respondents have stated that the availability of financial services in their rural area are moderate in terms.

- It has been found out that investors' perceptions towards feasibility of financial services offered by various agencies in rural areas significantly differ from one another.

- It has been observed that minimum deposit facilities or no-frill account is a more popular mode of financial inclusion among the rural masses of Tamilnadu in general and in particular to the study region Coimbatore District as per the opinion of 38.14 of the sample population.

6.3 Suggestions

- In India the focus of financial inclusion at present is confined to minimum access to a savings bank account without any additional changes, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. Hence, just opening the NFAs (No Frill Accounts) can never solve the real purpose of financial inclusion. Although by definition it is just to provide financial services to all sections of the society at an affordable cost. But for inclusive growth and upliftment of the population at the bottom of the pyramid, the orientation of banks and the general masses have to be changed. Thus, it is suggested that along with the financial inclusion, measures for financial literacy of the rural people are essential, to be undertaken by the banks.

- Banks should know how to best leverage between communications and technology in ways to engage and empower people in the area of financial literacy. Recognizing that people receive, learn and digest information in
different ways, it would be useful to survey all possible avenues of communication to determine the best way of capturing people’s attention and interest. The use of technology in the training of trainers could also be explored. Accordingly, the bank managers need to design and innovate a low cost business model suitable for their branch as guided by the RBI.

• The financial service sector has to tackle many challenges in the globalised field to fulfill the ever growing financial demands of the economy. The main challenges that have to be managed by the financial agencies are as follows:

  ❖ The financial service sector is fully geared to the task of "financial literacy" as financial inclusion is the basic norm of financial market operations. However, this sector faces many challenges like lack of qualified personnel. Hence, it is very important that proper and suitable training must be given to the various financial intermediaries by the financial agencies, who in turn can educate investors to make wise investment decisions.

  ❖ The introduction of new financial products and instruments will be of no use unless the investor is aware of the merits and uses of the new and innovative products and instruments. Therefore, it is suggested that the bank and other financial agencies must create financial literacy among the urban and rural masses.

  ❖ In India the whole financial system is undergoing a phenomenal change in accordance with the requirements of the national and global environments. It is time that this sector gave up their orthodox attitude of keeping accounts in a confidential manner. Hence, this sector should opt for better levels of transparency in their transactions. In other words, the disclosure requirements and the accounting practices have to be in line with the international standards of banking.
In the Indian scene, each financial intermediary seems to deal in different financial service lines without specializing in one or two areas. In other countries, financial intermediaries like Newton's Solomon Brothers specialize in one or two areas only. This helps them to achieve high levels of efficiency and excellence. Hence, in India also, financial intermediaries can go for specialization, to gain more knowledge on investors' behaviour and design products/service according to their need.

Most of the intermediaries do not spend more time on research. It is very vital that one should build up a proper data base on the basis of which one could embark upon "financial literacy among potential investment populations".

- From the extensive literature review it is to be understood that policy makers and financial agencies need to adopt two strategies in promoting "financial literacy" programme to make "financial inclusion" successful and meaningful. One is developing personal financial management skills and the other is developing financial operation skills for availing various financial services.

- Personal financial management literacy includes the component of awareness building for financial planning and changing impulsive financial decisions, understanding the importance of regular savings, borrowing only for productive purposes, minimizing risks through availing insurance services and also understanding financial principles. These include the following:
  - The Principle of fundability of money;
  - Principle of power of compounding;
  - Principle of productive versus unproductive use of money;
  - Principle of borrowed versus own capital; and
  - Principle of insurance.
A proper understanding of the principle of power of compounding will make the provision of "no frills" accounts meaningful because the poor will understand the importance of regular savings for the long term. Similarly, the principle of productive versus unproductive use of money will reduce the use of borrowed money for productive purposes and the principle of fundability of money may help them to save and plan for different purposes or different life-cycle needs.

Personal financial management literacy should be accompanied by financial operational literacy, like account opening procedure, explaining a nomination facility, types of savings accounts and how to avail credit from a bank etc.

- The financial inclusion programme can become meaningful if parallel work is done on both the demand and supply side. Excluded population should be prepared to avail of financial services from formal financial institutions and creating effective financial literacy can play a very important role in bringing in the desired results. Of course, it will be too much for banks to play this role of preparing people for availing financial services or converting need into demand. Thus, a parallel financial literacy movement should be encouraged, may be through the media, even as they may build a cadre of financial counselors at the grassroots level to educate people by building financial awareness. Even micro financing agencies like SHG can be involved in this process.

- The Bank-SHG linkage scheme is of extreme importance in establishing a strong relationship between the organized financial system, like commercial banks, and those people who need credit. Self-Help groups have become a fairly established institution in India. There is need for up scaling to cover productive loans while ensuring that the process of group formation and capacity building is given sufficient time to create
transparency in accounting and book keeping, and financial education of members should be part of due diligence undertaken by banks.

• As far as Indian economy is concerned, financial illiteracy in rural India is one of the major reasons for the underdevelopment of Banking and Financial Industry. Therefore, initiatives can be undertaken by private banking institution like, identifying Self Help groups to utilize the banking facilities and financial products and services provided by them. Then educating rural area customers with financial inclusion benefits by conducting financial literacy programmes and encouraging people to participate in financial inclusion initiatives with monetary rewards or by providing employment opportunities for suitable competent persons of those regional districts.

6.4 Conclusion

Financial literacy, in that sense, enables an individual to improve the management of one's finances and avoid distress. At a very basic level, financial education is about disseminating knowledge and information about the products and services offered by banks and other institutions. The objective is to make people aware of the risks and rewards so that they can make an informed choice. The country naturally benefits through higher savings and investments. Realizing the imperatives as well as the advantages, several countries have set up specialized bodies to spread financial literacy, supplementing the work done by regulators, financial institutions, non-governmental organisations and other less formal agencies. India has no nationwide structured financial education programme, but significant work is being done by the RBI, SEBI, Indian Banks' Association, various self-regulatory organisations and the Banking Code and Standards Board of India under the financial inclusion programme.

As far as India is concerned, financial literacy and awareness should go hand in hand, if the very important socio-economic objective of financial inclusion is to be achieved. The task is challenging because the majority of the rural
population is still beyond the pale of the banking system. Alternative financial delivery channels involving the use of modern technology are being tried out but by the RBI. These will succeed only if financial literacy deepens. It is heartening that public sector banks have set up dedicated centers to promote financial literacy and, eventually, inclusion. But the private sector banks will do well to follow this lead, only if they confirm that this process will benefit them monetarily. They still wait for the feedback to be received on the success of financial inclusion programmes initiated by the public sector banks.

In near future surely the private sector banks and other financial service renders will relatively be benefited from the new markets if they offer region-specific products and financial services. Several related benefits also will flow from a concerted programme of spreading financial literacy. Consumers who are better informed will demand accountability and seek redressal of grievances. That, in turn, would enhance the effectiveness and integrity of financial markets. As financial education empowers the common person, it reduces the government's burden in the matter of protecting him or her from the elements of market failure arising from information asymmetries. For these and other reasons, the RBI Governor has said financial literacy is not just a public good but a merit good to the functioning of financial institutions operating in India.

From the detailed study, it has been inferred that the investment habit of a large section of Indian society is still unchanged especially in rural areas. For decades they had never looked beyond the Government operated schemes for their investment needs or they have not moved from banking savings and secure investment schemes to more sophisticated financial market operations like trading or investment in mutual funds/debentures. By investing in zero-risk products, they have become slaves of protectionist investment behavior and did not kept pace with the changing market order. Moreover, common man today is fearful of investing in other asset classes.
The reason given by many for not investing or avoiding certain asset classes is lack of knowledge about those asset classes. Further, the general negative perception that gets built-up by people around us who failed in their investment, is passed on to the asset class, instead of the faulty investment decisions made by those people. The point is, the investment ideology which our parents and grandparents followed may not be suitable today. There is a need to evolve and acclimatize ourselves with changing times and it is becoming increasingly important. For the financial literacy programme to take wings, the markets will have a big role to play. Financial illiteracy is a major stumbling block in furthering financial inclusion. This has led to the financial illiterate segment making negative savings in many cases. Therefore, banks need to view the situation as not an obligation to be met but an opportunity that is to be woven into their business strategies.

The Finance Minister of India, Mr. Pranab Mukherjee, urged private sector banks to build in financial inclusion plans in their respective business strategies. Mr. Mukherjee urged the private sector to support the designing of physical products including devices, software and financial services, training and capacity building so as to create a large manpower pool including business correspondents, and develop a business plan to tap the local talent that exists in the rural areas, on the lines of the e-choupal model.

To conclude, Financial Inclusion can emerge as a commercial profitable business and can truly lift the financial condition and standard of life of the poor and the disadvantaged. As bankers have a small but significant role to play in this unfolding of the future story of economic growth and distribution, other financial market participants must be included in this process of creating financial literacy as a measure towards complete financial inclusion and strive to achieve the set goals. Financial inclusion is not a one-person show. Its success will depend on the presence of an institutional environment with clear lines of accountability and
coordination between Government, regulators, financial institutions, and other key stakeholders. It will be a fruitless exercise if regulators’ efforts to make relevant and enabling regulations does not match the corresponding responses from the financial institutions. Therefore, the research work on Financial Services Awareness and Investment pattern of the rural masses would give proper solutions for the people living in the rural areas.

6.5 Scope for Future Research

Financial inclusion is an idea whose time has finally come in India. It will enable hundreds of millions of low-income people to improve their economic and social status by participating in the financial system. From this research work it has inferred that the financial literacy levels are extremely low among the different segment of populace in India. Even though microfinance institutions have expanded very fast in the last five years, they still only cover about one fifth of low-income households and they have met only one tenth of the credit needs of the poor. Therefore, the researcher considers the following area as the potential topics for the future researchers.

- To study the Financial Engineering Strategies and the success of financial inclusion programme initiated by Reserve Bank of India among the low-income urban citizens and to access their level of financial literature.
- To measure the financial literature level and the development of personal Financial Management and Operation Skills of the rural and urban unorganized workers in India and also measure the achievements in the set goal.
- To study the success of financial inclusion schemes in hilly region of Tamilnadu.