INTRODUCTION

1.1 Introduction

India, being a developed country, requires capital formation through saving and investment. In order to achieve this objective there should be proper planned, promoted and channeled investment pattern among the inhabitants. However, vulnerable groups, such as weaker section and low income groups continue to remain excluded from even the most basic opportunities and services provided by the financial sector (Sukdeve, 2008). The contribution of households sector saving to GDP was decreased from 22.8 percent in 2011-12 to 21.9 percent in 2012-13 (Shyamal Banerjee, 2014). Household saving is important for several reasons. At the national level, household savings provide the main source of investment financing both for Government and the corporate sector. The individual household saving is done in order to achieve specific short term and long term goals, notably financial security (Geetha and Vimal, 2014). To achieve higher rate of growth with relative price stability, the propensity to save should be raised by appropriate incentives and policies (Montek Singh Ahluwalia, 2008).

Household saving is defined as the difference between a household’s disposable income (mainly wages received, revenue of the self-employed and net property income) and its consumption (expenditures on goods and services). Since the early-to-mid-1990s, savings rates have been stable in some countries but have declined in others - in some cases sharply, including in Australia, Canada, Japan, Hungary, South Korea, the United Kingdom and the United States. With the great recession of 2007-2008 that trend reversed itself, and household saving rates increased in 2009 in many countries. However, in 2010 they started declining once again in a number of places and are projected to continue to do so through 2013 (Tina Aridas, 2010).

In an era of international financial integration, for macro-economic stability, higher domestic savings is necessary (Unny, 2001). Financial inclusion means the delivery of financial services including banking services and credit, at affordable cost to the vast sections of disadvantaged and low income groups who
tend to be excluded (Sanjeev Kumar Gupta, 2012). India which houses nearly 16 percent of the global population has more than 65 percent of its people outside the formal financial system (Sukhbir Kaur, 2013).

Saving among the poor is not an easy habit; it requires some external pressure (Srinivasan, 2010). The main reason for financial inclusion is the lack of a regular income or substantial income. In most of the cases people with low income do not qualify for a loan. The proximity of the financial service is another fact. The loss is not only the transportation cost but also the loss of daily wages for low income households. Most of the excluded consumers are not aware of the bank’s products, which are beneficial for them. Getting money for their financial requirements from a local money lender is easier than getting a loan from bank. It is very difficult for a low income individual to find collateral for a bank loan (Atul Pandey, 2013).

The main focus of financial inclusion in India is to promote sustainable development and generating employment in rural areas for the rural population. Out of 19.9 crore households in India, only 6.82 crore households have access to banking services. As far as rural areas are concerned, out of 13.83 crore rural households in India, only 4.16 crore rural households have access to basic banking services. In respect of urban areas, only 49.52 percent of urban households have access to banking services. Over percent of adult population in India does not have bank account. There are many factors affecting access to financial services by weaker section of society in India (Karthikeyan Kothandaraman, 2011).

Keeping in view the enormity of the task involved, the Committee on Financial Inclusion recommended the setting up of a mission mode National Rural Financial Inclusion Plan (NRFIP) with a target of providing access to comprehensive financial services to at least 50 per cent (55.77 million) of the excluded rural households by 2012 and the remaining by 2015 (Karthikeyan Kothandaraman, 2011).

The Government of India introduces financial inclusion; it mainly focuses on the poor who do not have formal financial institutional support and getting
them out of the clutches of local money lenders. The macroeconomic stability could be achieved through promotion of financial inclusion holistically with coherent approach (Arokia Jerald, 2008).

As a first step towards financial inclusion policy, Regional Rural Banks were set up. With the directive of Reserve Bank of India (RBI), Banks allow low income groups to open ‘no frills accounts’. RBI has further relaxed Know Your Customer (KYC) norms and restrictions on mobile banking. National Bank of Agricultural Rural Development (NABARD) has also contributed significantly by introducing SHG- Bank linkage programme, Kisan Credit Card (KCC) Scheme and has sanctioned Trainers’ training programme on financial literacy, farmers’ service, mobile credit counseling centers and promotion of farmer education. It also includes providing facilities of micro insurance and micro pension (Balashri Shanka Jalgar, 2011).

Raising financial literacy supports social inclusion and enhances the wellbeing of the community. Since the financial crisis, importance of financial literacy and the improvement in consumers’ financial activities have been increasingly recognized and discussed in the international foray such as the Organization for Economic Cooperation and Development (OECD) and G20. It is thus become important to enhance Indian consumers’ financial decision making (Saravanan, 2010). In terms of overall financial literacy, India is at the bottom among 16 countries in the Asia-pacific region with 59 index points, according to the annual MasterCard’s index for financial literacy (Sauarabh Kumar, 2013).

Financial literacy is increasingly being recognized in industrialized countries as an important tool for consumers of financial services, including individuals living in low income households. This recognition is the result of the growing data derived from financial literacy interventions and from the growing economic crisis which is shedding light on the negative consequences of uninformed financial decision making by consumers. Consequently, governments have become interested in exploring what policies and practices can be employed to grow the financial literacy of their citizen (SEDI, 2009).
Financial literacy may help the low income households to improve the efficiency and quality of financial services. Consumers need a certain level of financial understanding in order to evaluate and compare financial products. Financial literacy enables people to make better financial decisions, to appreciate their rights and responsibilities as consumers of financial products, and to understand and manage risk. Thus, personal financial literacy ensures and prepares an individual to manage money and credit, better informed consumers make more effective choices and more appropriate decisions. They are less likely to be mis-sold or mis-buy products and services (Mahesh Sarva, 2014).

1.2 Financial Literacy initiatives in India

In India, fifteen years has witnessed growth in financial services unfolded by Liberalization and Globalization of financial services due to adaptation of information technology and unlocking of the regularity frame work. But, alongside this positive development there are evidences that formal financial sector still excludes a large section of population (Jatinder Handoo, 2012).

Of the total workforce of 321 million, 70 percent of them have cash income, of which 48 percent have no savings in any form. In this 48 percent “No Savings” segment, only 20 percent of them are urban and the rest 80 percent is rural (IIMS Survey, 2007).

- Financial Literacy Initiatives by Reserve Bank of India (RBI)

The Indian banking system had adopted multiple approaches to make universal financial inclusion. Be it bank nationalization in 1969 of formation of Regional Rural Banks. Formation of NABARD or forecasting microfinance through Bank-SHG linkage programme in early 90’s.

The financial literacy drives in 2007 by the Reserve Bank of India in collaboration with OECD, titled "Project Financial Literacy" gave directives on disseminating information regarding the central bank and general banking concepts to various target groups, such as, school and college going children, women, rural and urban poor, defense personnel and senior citizens. Under this
project, the RBI has emphasized the need for credit and technical counseling for increasing the viability of credit, particularly in the relatively under-developed regions (Hemanatha Kumar, 2012).

RBI has set up a multilingual website in 13 languages explaining about banking, money etc. It has started putting up comic strips to explain various difficult subjects like importance of saving, RBI's functions etc. These comics explain myriad and complex concepts in an entertaining manner (Vivek Singla, 2013).

A Financial Literacy and Credit Counseling Centre (FLCC) in the State and Union Territory were established. The Lead Banks were advised to set up such centers in other districts (Chackrabarty, 2009).

Facilitating policy stance of the annual policy statement for the year 2005-2006 indicated that the banks were to implement policies to provide extensive services, while dis-incentivising those that are not responsive to the banking needs of the community, including the under privileged. The facilitating policy urged banks to review their existing practices to align them with the objective of financial inclusion, operation of no frill accounts and overdraft in saving bank accounts with relaxed KYC norms.

The banks were permitted to utilize the services of intermediaries in providing financial and banking services through the use of business correspondent (BC) and business facilitator (BF) models by keeping in view the regulatory and supervisory framework and consumer protection issues. BC model was enlarged by the issue of Kisan Credit Cards (KCC), General Credit Card (GCC) guidelines, liberalized branch expansion, introducing technology products and services, pre-paid cards, mobile banking, allowing Regional Rural Banks (RRBs) and Co-operative Banks to sell insurance and financial Products, Financial literacy program and creation of special fund for moving towards hundred percent financial inclusion (Khan, 2005).
• **Initiatives of National Bank of Agricultural and Rural Development (NABARD)**

Financial literacy has picked up pace and is now being imparted not only by the banks, but also by various other independent organizations like funding agencies, NGOs etc., because it is now being seen as empowering the vulnerable poor and enhancing their income through informed decision making in financial matters (NABARD, 2012).

• **Initiatives by other Banks**

Apart from the Scheduled Commercial Banks, the private banks and Multinational banks also are doing their bit towards financial inclusion through financial literacy. The initiative in opening FLCCs in the country such as initiative of Bank of India, “ABHAY” Counseling centre and Disha Trust, an initiative of ICICI Bank Ltd. Many other Banks are reaching out to the financially excluded in at least three modes, separately or in combination. “Sarthee” Bank of India’s Programme is “Abhay” and Canara Bank Mobile Van called “Canara Gramina Vikas Vahini” while Dena Bank named its programme as “Dena Mitra”, Allahabad Bank has named its programme as “Samadhan” (Hemanath, 2012).

South Indian Bank has appointed direct Business Correspondents in the allotted villages. It has introduced “KIOSK Banking Model" as Financial Inclusion Initiative in association with Akshaya e-centres in the state of Kerala. Kiosk is a kind of banking model, where people living in unbanked or under banked areas can avail basic banking facilities from a nearby common service centre or BC Office without visiting a regular bank branch. Basic banking needs of the public like opening of account, deposit and withdrawal of cash etc. is possible from these common service centre or BC Office (Joseph, 2012).

HDFC Bank highlighting that the purpose of this programme is to create financial awareness and educate the common man on money management and advantages of savings with banks (Narayan, 2013).
• **Initiatives by Post Office**

India Post is largest in the World Post Network which covers over 1.55 lakh branches which is larger than all commercial banks in India put together. The existing set up where 89.81 per cent branches are in rural area most suited to the mission of financial inclusion. On an average 7, 176 people served by a post office; 5, 682 in rural and 20, 346 in the urban areas. It has a network of over 155, 000 post offices, 89 percent of which are located in rural areas (Nimal Fernando, 2007).

• **Initiatives by Non-Government Organisation (NGO)**

NGOs taken up financial literacy programme as part of their SHG development programme. Institutions like the Mangalore based “Jnana Jyothi Financial Literacy and Credit Counselling Trust” jointly sponsored by Vijaya Bank and Syndicate Bank, the Ahmedabad based “Indian School of Microfinance for Women” (ISMW), DHAN Foundation, Nidan, Delhi, People’s Education and Development Organisation (PEDO), Dungarpur, Rajasthan, IBTADA, Alwar, Rajasthan, Centre for Community Economics and Development Consultants Society (CECOEDECON), Jaipur, in addition to many other institutions and organisations across the country, are all working towards the financial literacy of the excluded. While all citizens are to be included, presently focus is more towards women and the poor.

• **Initiatives by Securities Exchange Board of India (SEBI)**

The SEBI has initiated nationwide campaign on financial education. It has empanelled resources persons throughout India, to give training on various aspects of finance and knowledge about financial markets namely saving, investment, financial plannings, banking, insurance, retirement planning etc. SEBI setup 'SEBI help line' in 14 languages wherein through a toll free member investor across the country can access and seek information for redressal of their grievances and guidance on various issues (Prjakta Josi, 2012).
• **Initiatives by Insurance Regulatory and Development Authority (IRDA)**

  Awareness programme has been conducted about the right and duties of policy holders, channels available for dispute redressal etc. and published comic bank service on insurance.

• **Initiatives by the Pension Fund Regulatory and Development Authority (PFRDA)**

  PFRDA has been engaged in spreading sound security messenger to the public. It has developed Frequently Asked Question (FAQs) on pension related topic on its web.

  Dissemination of such knowledge pertaining to various financial services and products is being imparted in different forms and modules by different organizations across India. By drawing the best practices and the right modules of delivery from these different programmes, it is possible to give the directions for developing a coherent and apposite Financial Literacy Package for the marginalized and unbanked section of people.

  Irrespective of all the steps taken by the government, RBI, commercial Banks, Life insurance corporation of India, SEBI and private banks, the low income households still not yet reached and remains as financial excluded. Many people belong to low income groups, below poverty households, women, scheduled caste and scheduled tribes and people living in urban slums were excluded in this program.

1.3 **Financial Literacy**

  According to OECD and International Network on Financial Education (INFE’s) report “the High-Level Principles on National strategies for Financial Education (June 2012), financial literacy is a combination of financial awareness, knowledge, skill, attitude, behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing”.

According to Reserve Bank of India, financial literacy can broadly be
defined as the capacity to have familiarity with an understanding of financial
market products, especially reward and risks in order to make informed choices.
Moreover, financial literacy plays a significant role in the efficient allocation of
household saving and ability to individuals to meet their financial goals (Arokiar
Jerold, 2008).

According to Usha Thorat (2007), financial inclusion represents reliable
access to affordable savings, loans, remittances and insurance services. The
factors affecting access to financial services is the financial literacy, the stumbling
block to further financial inclusion. One of the reasons individual do not engage in
planning or not knowledgeable about terms of their financial contract is that they
lack financial literacy.

Financial literacy means knowing the basic survival principles involved
with earning, spending, saving and investing. Earlier, the parents use to save
more and spend less, today, young adults wants to earn more to be able to
spend more, without bothering to save or invest (Manish Misra, 2009).

As per the study conducted ‘Education for the poor’ by Microfinance
Opportunities, a micro enterprise resource center, a consistent demand was
found for the following broad themes of financial education namely money
management. debt management, managing savings, financial negotiation and the
use of Bank services (Anath Bindu, 2005).

1.4 Statement of the Problem

Financial literacy is a prerequisite for effective financial inclusion which will
ensure financial services for each of the unreached and under reached section of
the society. Financial literacy is important at many levels, certainly, it is most
important for the individual who must make complex and expensive financial
decision on behalf of him or herself and of dependent’s (Mecham, 2005).

Financially educated consumers, in turn, can benefit the economy by
encouraging genuine competition, forcing the service providers to innovate.
Financial inclusion in India encouraged banks to penetrate into the urban and
rural area by using the non-branch delivery system like the Business Facilitators (BF) models or Business Correspondent (BC) model. Under the BF model, banks utilizes the network of intermediaries such as the NGOs, post offices for banking services such as creating awareness and educating on the financial products, collecting and processing information of borrowers, selling banking products and financial services to low income households etc. (Jan Mitra Rickshaw, 2008).

The saving among middle income group and higher income group is increasing but the low income group is left behind without knowing awareness of financial inclusion, bank credit and knowledge on financial literacy (Santhi, 2010). The impact of family income is more in contractual saving rather than discretionary saving. The income difference has a significant impact on saving and investment activities (Kasilingam and Jayabal, 2008).

With respect to debt, rental household were twice as likely as household owners to be in debt than asset. The limitations were the absence of good information on long term investment (Lerman, 2005). The fact that most of these borrowings were taken as small sums from several entities also does not boost the use of these funds towards productive purposes (Rajalaxshmi et al., 2008). Strong relationships between financial literacy and financial behaviour reported from data from Indonesia and India demonstrates that financial literacy is an important correlate of household financial behaviour and household well being (Cole et al., 2008). Financial literacy is lower for unemployed, females. Variations in financial literacy level were observed across demographic and socio-economic groups (Agarwal et al., 2011).

Though the study comprises of samples drawn from low income households vast difference exits between the low income households living in urban agglomeration and low income households living in rural area in terms of their living condition, occupation, earnings, propensity to save, borrowing, banking practice and financial knowledge. Thus, it become imperative to address the under mentioned issues from the low income group households point of view (figure 1).
• How to proactively manage money?
• How to control debt?
• How to save regularly?
• How to maximize the use of financial services?

Hence a study on the “Assessment of Financial Literacy for Financial Inclusion among Low Income Households” was attempted.

**1.5 Objectives of the Study**

The primary objective of the study is to assess the financial literacy among low income households living in urban and rural areas for effective financial inclusion. In order to achieve the primary objectives, the following secondary objectives were framed.

- To understand the money management practices among selected low income households.
- To analyze debt management practices of the low income households.
- To assess the saving practices and banking practices of low income households.
To assess the awareness on financial inclusion programmes among sample respondents.

To examine the financial literacy among low income households and

To identify the determinants of financial literacy among selected low income households.

### 1.6 Hypotheses

In order to fulfill the stated objectives, the following hypotheses were tested.

- The current financial practice namely money management, debt management, saving habits and banking practices of the respondents have significant association with the socio economic and demographic profile of the respondents.
- Awareness of financial inclusion programme of the respondents was independent of socio economic profile.
- Basic financial literacy and advance financial literacy of the respondents were independent of their socio economic and demographic profile.

### 1.7 Scope of the Study

Financial education and consumer protection have relatively seen as vitally important tasks. In traditional societies like India, the saving function is carried out with in the family, parents support their children, and then the children grow up and support their elders. People with extra resources could save them, by investing in bank deposits, bank equalities and insurance policies, especially among the middle and upper classes. But it is not so with low income classes. The well being of such class of people is imperative for regulators and policy makers in order to bring them in a common platform. Apart from other factors, the element of financial literacy is the prerequisites for hundred percent financial inclusion.

Financial literacy has assumed greater importance in the recent years, as financial markets have become increasingly complex and as there is information asymmetry between markets and the common person, leading to the latter finding
it increasingly difficult to make informed choices. Answers to the above questions would be useful for both academic and corporate community and policy makers. For the academic community, this study would be a step further in validation of the construct to financial literacy. For the corporate community the study would be useful in designing appropriate financial products. For policymakers, the study would bring out an insight on financial decision making aspects of the low income households and thereby to introduce measures for financial inclusion.

1.8 Limitation of the Study

- The results of the study are location specific and the conclusions drawn may not be applicable to a different district having different Socio-economic conditions.
- Lack of adequate knowledge among the under-banked population in the study area may prevent from supply of adequate data.

1.9 Plan of the thesis

The thesis is organized in five chapters.

**Chapter I**  The first chapter deals with introduction, statement of the problem, scope of the study, hypotheses of the study, objectives of the study and limitation of the study.

**Chapter II**  This chapter presents the review of empirical studies carried out on the topic in the past.

**Chapter III**  This chapter discusses research methodology adopted in the study.

**Chapter IV**  This chapter presents the analyses and interpretation of the study. It includes money management, debt practices, saving practices, utilisation of banking and determinants of basic and advance financial literacy.

**Chapter V**  Summary of results and conclusion are presented in this chapter.