FINANCIAL LITERACY AS A TOOL FOR EMPOWERINGFINANCIAL INCLUSION IN RURAL AND URBAN IN INDIA

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Abstract

The purpose of a financial inclusion agenda is responsible wealth creation and distribution as well as efficient transfer of capital. Financial inclusion has become a buzz word in the academic and policy arena, with sustainable development being tied closely to financial inclusion in literature and some efforts have been made to include this in policy mix. Financial Inclusion is the delivery of banking services at affordable costs to vast sections of disadvantaged and low income groups including households, enterprises, SMEs and traders. It follows that some portions of the population fail to access such services, and when they make effort to access the costs may be unbearable. This therefore still excludes such part of the population which can use them out of the financial sector.

1. INTRODUCTION

The Indian financial institutions have prevailed in some of these techniques; however, more still should be done, because, as demonstrated on the 2011 Fin Scope India, the percentage of grown-ups who are financially avoided expanded from 23% out of 2010 to 27% out of 2011. Then again financial inclusion may likewise be thought to include access to the financial infrastructure by all the populace groups and ages. Infrastructure involving access to bank offices, ATMs and purpose of the offer using retail shops and different financial items, however, the knowledge to make utilization of different financial items has been disregarded this is the thing that financial literacy is intended to address. The absence of knowledge has brought about the problematic effect in utilizing this open door and at times demonstrated counterproductive with the making of obligation traps [1].

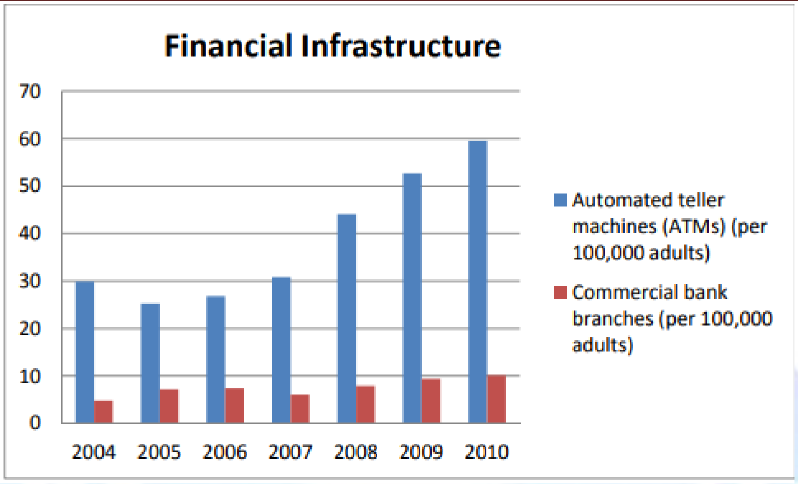

Figure 1: Financial infrastructure Development

Figure 1 indicates that in terms of infrastructure, the number of automated teller machines per 100,000 adults decreased between the years 2004 and 2005. A possible cause for the decline in the number of ATMs is the increase in the number of ATM bombings in the country during the same period. Furthermore, again that the occurrences of cash-in-transit (C-I-T) robberies in India increased steadily from 192 in the 2003/2004 financial year to 220 in 2004/2005. This might have negatively influenced the desire of banks to establish ATMs. However from 2005 till 2010, the number of automated teller machines per 100,000 adults swiftly increased [2].

2. LITERACY LEVEL IN FINANCIAL INCLUSION IN INDIA

India is one of the quickest developing economies of the world. In spite of such a high economic growth, our rural populace appears to miss the benefits of this growth. At around 350-450 million individuals or some 70-80 million families, India has the biggest total number of world's poor as detailed in Human Development Report (2006). A noteworthy concern across the nation is that rural poor have benefited next to no from the quick pace economic growth. Because of this selective growth, the movement of rural poor to urban regions has expanded the urban poverty and relocation related social issues [3]. Huge larger parts of the populace living in rural regions of the country have significant issues in getting to formal financial services as appeared in Fig. 2.

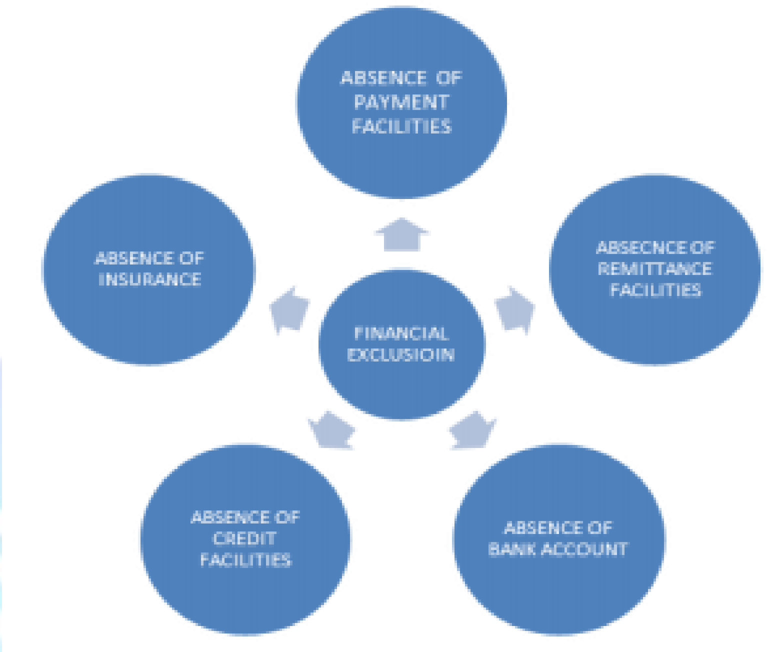

Figure 2: Supply Side Factors of Financial Exclusion

RBI has set up an advisory group for IT enabled financial inclusion to facilitate development of IT solutions for delivery of banking services, the group will advise certain minimum parameters and standards that are essential for setting up robust interoperable systems on open platforms. Technology has grown tremendously in the past decade and has changed the way the various sectors operate. They can also be used in countries where literacy levels are low [4].

- **Biometric ATM:** Union Bank of India has launched the regions first solar powered, voice enabled biometric rural ATM in Ludhiana District (www.indainexpress.com). The ATM works on solar power and can support the biometric and pin based transaction.
- **Mobile based payment system:** Mobile money transactions will require the collective efforts of banks, telecom service providers and the technology developers. Yes Bank has already made the effort under National Innovation Program to deliver the business model of crop insurance through mobile technology.
- **Smart Card (Business Correspondent):** To obtain the card an individual has to provide documentary evidence of residency for more than one year and they should be registered under minimum employment guarantee scheme and social security pension program of India. The mechanism of operating the smart card is very simple, the business correspondent will carry a handheld device to the rural area, where the villager will swipe the card and authenticate the withdrawal using his fingerprint impression,

after authentication the correspondent will give him the cash.

- **Telecenters:** Telecentres are places where shared access to information and communication technology and Information Technology empowered services are accessible. Telecentres as a potential instrument for tending to the deviated information issue and the advanced partition, and subsequently as development empowering agents.

3. ROLE OF TECHNOLOGY IN FINANCIAL INCLUSION

1. Among the key constraints cited world over in achieving significant financial inclusion is the cost of servicing small value and unprofitable customer segments or providing credit facilities to those with irregular income history.
2. The combination of IT and mobile telephone along with other IT-enabled services has emerged as a viable solution for greater financial inclusion.
3. Essentially, this combination of technologies minimizes the need for setting up physical branches at all locations with trained persons to man them
4. It allows the servicing banks to improve efficiency and provides for use of multiple channels to work together as an inter-connected system.
5. The rapid growth of technology and communication infrastructure in India is great enabler for establishing rural information infrastructure.
6. Short Message Service (SMS), Unstructured Supplementary Services Delivery (USSD), Wireless Application Protocol (WAP), General packet radio Service (GPRS), phone-based application such as Java 2 Micro Edition (J2ME)/Binary Runtime Environment for Wireless (BREW), Subscriber Identity Module (SIM) based application and Near Field Communication (NFC) are the various technology applications available, which can help improve the level of financial inclusion in the country [5].

4. RBI INITIATIVES FOR FINANCIAL INCLUSION

1. Opening of no-frills accounts: Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population
2. Relaxation on known-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction
3. Engaging business correspondents (BCs): In January 2006, RBI permitted banks to engage business correspondents (BCs) as intermediaries for providing

financial and banking services, which allow banks to provide doorstep delivery of services.

4. Use of technology: Banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions.
5. Adoption of Electronic Benefit Transfer (EBT): Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary, thus reducing dependence on cash and lowering transaction costs.
6. Simplified branch authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting.
7. Opening of branches in unbanked rural centres: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres [6].
8. Role of Micro Finance Institutions: The role of Micro Finance Institutions (MFIs) cannot be ignored in reaching the unbanked poor population to reduce the disparities in terms of income and savings.
9. Products of Financial Services: With a view to help poor and the disadvantaged section of the society banks have been introduced a General Purpose Credit Card (GCC) and Kisan Credit Card (KCC) facility.

5. EMPOWERING FINANCIAL INCLUSION THROUGH FINANCIAL LITERACY

In the easiest terms, financial inclusion implies giving access to basic financial services at reasonable prices, a pre-essential for introducing overall growth. Growth should be adequately inclusive if its benefits must be shared among all or else the growth procedure itself might be risked and wrecked. Financial Inclusion can contribute considerably towards 'inclusive growth.' Access to financial services enables the poor to spare money outside the house securely, avoids concentration of economic influence with a couple of people and aides in alleviating the dangers that the poor face because of economic stuns. It is presently generally acknowledged that financial exclusion leads to non-openness, non-reasonableness, and non-accessibility of financial items. In other terms, financial inclusion is an express strategy for accelerated economic growth and is considered to be basic for achieving inclusive growth in the country.

The closeness of the financial administration is another reality. The misfortune isn't just the transportation cost yet additionally the loss of everyday compensation for a low-income person. The majority of the prohibited consumers don't know about the bank's items, which are helpful for them. Getting money for their financial necessities from a neighbourhood money moneylender is simpler than getting credit from the bank. This will assist the low-income individual with opening a 'No Frill' account without personality verification and address the evidence. In any financial system, there are five basic capacities to be performed; they are as per the following [7]:

a) Facilitate trading, hedging, diversifying, and pooling of risks;
b) Allocate resources;
c) Monitor managers and exert corporate control;
d) Mobilize savings; and
e) Facilitate exchange of goods and services.

This is especially exceptionally disturbing as the rural populace in India still needs to part more consideration. According to evaluation data, out of around 600,000 towns in India, there are just 33,495 rural bank offices. The Indian Government has a long history of attempting to grow financial inclusion. Nationalization of the significant private sector banks in 1969 was a major advance. In 1975 GOI built up RRBs with a similar point. It encouraged branch extension of bank offices particularly in rural zones. The RBI rules to banks demonstrate that 40% of their net bank credit ought to be loaned to the need sector.

This, for the most part, consists of agriculture, small-scale industries, retail exchange and so forth. Over 80% of our populace depends directly or indirectly on agriculture. So 18% of net bank credit ought to go to agriculture loaning. Late disentanglement of KYC standard is another point of reference. However, banks are battling to satisfy the Financial Inclusion dream. The fundamental reason is that the items planned by the banks are not fulfilling the low-income families. The arrangement of uncomplicated, small, reasonable items will bring the low-income families into the formal financial sector. Banks have constraints to achieve directly to the low-income consumers. There is a need to see financial inclusion as a "semi-public great." Finance has come far since it wasn't recognized as a factor for growth and development. It is currently credited as the mind of an economic system and most economies endeavour to make their financial systems more productive. It additionally keeps policymakers on their toes as an issue in this sector could solidify the whole economy and even lead to a contagion. The prior research concentrated on how finance helps an economy. Presently, inquire about demonstrates that financial inclusion is as imperative. The new road for investigating in finance is - making financial inclusion workable.

6. FINANCIAL INCLUSION IN RURAL INDIA

The government conceived that 40 percent of the aggregate credit of the nationalized banks/commercial banks ought to be channelized to need sectors (of which 18 percent was for agriculture and ten percent for weaker segments), groups or areas to support exercises that were either considered to be socially helpful or inalienably dangerous and borrower groups that were probably going to be underestimated in the credit markets, at bring down rates of interest. This was an essential advance in the direction of attesting the developmental role of banks. These measures strongly affected the rural economy. The tremendous branch development of nationalized banks helped the general population in remotest territories to approach financial services.

The growth and expansion of rural credit dislodged town moneylenders to a noteworthy degree and prompted unobtrusive increments in total product yield, sharp increments in the utilization of manures and interests in the physical capital like tractors, pump sets, and creature stocks. A generous beneficial outcome is seen in non-cultivate work and yield too. Despite the fact that the banking system has encountered remarkable growth as far as geographical spread, deposit assembly and disbursal of credit in rural regions after nationalization, bank credit stays all around, unavailable to the poor. The poor both in rural and urban regions don't have the fundamental capabilities to approach and consult with formal financial institutions [8].

The formal credit institutions disregarded consumption needs of the poor and underlined just on generation credit. The spread of the system has been uneven crosswise over districts and riches groups. The extent of the poor acquiring credit from the banking system has been lower than their offer in the aggregate populace. Besides, there is across the board conviction that the poor are un-bankable.

Insufficient staff and administrative inadequacies inside the banking system have additionally been causing issues. The financial sector changes started in 1992 were planned to change the financial sector. Be that as it may, the proposed changes have been systematically moving far from the social goal of the banking sector by nullifying concessional interest rates, demanding collateral notwithstanding for small borrowers and making vast stipulated minimum adjust compulsory for conceding loans to small savers from the system. In consequence, the quantity of small borrowal accounts has declined, and it has brought about misallocation of funds, particularly preoccupation to venture from credit to the small borrower, an extension of foreign bank which just serves the world class in urban regions.

7. FINANCING OF URBAN IN INDIA

City or Urban Local Bodies (ULBs) and the Panchayati Raj Institutions (PRI) are the primary suppliers of key services at the grass-root level to the residents. These nearby bodies directly manage the neighborhood populace and accordingly are best educated about the ground reality. Accordingly, their sources of info and recommendations merit due consideration in planning and execution forms, and their concerns require reasonable consideration by the state governments. Concentrate should be laid on reinforcing of the organizational and also financial position of the neighbourhood bodies. With switching times technological up-degree of capacities and services given by these neighbourhood bodies would become basic, and in this way, there is a requirement for upgrading their infrastructure.

The quantity of urban zones or towns has expanded from 1827 of every 1901 to 7935 of every 2011. The offer of people living in urban territories ascended by 3.35 percent in the decade 2001 to 2011 from 2.10 percent in the decade 1991 to 2001 (Government of India, 2013a). The urban populace is concentrated in substantial urban areas. There were 53 million or more urban communities accounting for around 43 percent of India's urban populace in 2011. Class-I urban areas having populace more than 3 lakh accounted for around 56 percent of the urban populace while those with 1 lakh to 3 lakh accounted for 14 percent. This example of populace concentration has suggestions on work openings (Government of India, 2013a). The government has been starting measures for tending to the issue of urbanization for about two decades [9].

The urban populace expanded from 78.9 million out of 1961 to 377 million of every 2011 and is assessed to achieve 470 million out of 2021 and 700 million out of 2041 (Government of India, 2013a). One of the regions that require consideration, as pointed out by the Twelfth Five Year Plan (FYP), is the issue of urban poverty, which can be identified with work openings. The growth of urbanization leads to a requirement for higher communication, relocation, coasting populace and mushrooming of ghettos. Hence, there is have to accommodate lodging, wellbeing, water supply, sanitation, and education. Urbanization is a vocation making procedure and contributes to economic and general growth.

The urban offer of GDP was assessed at 62-63 percent in 2009-10 by the Twelfth Five Year Plan. Likewise, expanded interest in urban infrastructure is identified with developing urbanization. The country has an unmistakable lack of world-class infrastructure. Such infrastructure deficiencies can go about as obstructions in the growth procedure. Accordingly, infrastructure development is critical to managing India's economic growth. What's more, the present levels of infrastructure, both urban and rural, are insufficient to meet requests of the developing populace. The continuous increment in the urban populace is sure to put a strain on urban infrastructure. Likewise, the union government has examined developing of '100 shrewd urban areas' as satellite towns of bigger urban communities or modernizing the current fair size urban communities.

8. CONCLUSION

Thus it is concluded thatfinancial sector institutions which address financial inclusion as an open door rather than a social commitment and commit them to making original items and services will wind up on the ball competitively in rural and urban area. Its developing omnipresence and proliferation of remote communication coupled with falling equipment and cell phone costs give a remarkable chance to convey standard financial services to the poor at the required scale and moderateness by utilizing ICT. Proper and reasonable technology accompanied by the correct business model can make financial inclusion economically suitable for the formal financial sector and change it from a commitment to an open door.

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