

A Study on Financial Inclusion and Literacy Rate in India**Ms. Radhika P Desai (Lecturer)****Ms. Manisha M Surti (Lecturer)****B.V. Patel Institute of BMC & IT, Uka Tarsadia University****ABSTRACT**

In recent time financial inclusion become publicized as an explicit goal of government as well as our major banks. There may be many reasons behind financial exclusion like unavailability of financial services, lack of trust, lower level of literacy rate of population, income level and larger population of India still live in rural area etc. "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." Literacy rate is one of the major social indicators of financial inclusion. Literacy provides the information about the rights and facilities available to every individual and it leads to financial inclusion. The major focus of the study is to find out the gap between literacy rate and percentage of households availing banking services in different states of India and to identify the relationship between literacy rate and level of financial inclusion of different states in India. The study is based on secondary data. Result of the study reveals that literacy level is a main factor affecting to percentage of households availing banking services.

Key Words: Financial Inclusion, Literacy, Banking Services and Households

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INTRODUCTION

Since independence, providing financial services to people is clear part of our mandate. After 67 years of independence, larger part of our population remains excluded from the usage of financial services. In recent time financial inclusion become publicized as an explicit goal of government as well as our major banks.

There may be many reasons behind financial exclusion like unavailability of financial services, lack of trust, lower level of literacy rate of population, income level and larger population of India still live in rural area etc.

Literacy rate in India literacy rate differ from state to state. There is state like Kerala where literacy level is about 94% and on the other hand state like Bihar which has lowest literacy rate. Majority of Indian states facing challenge for having higher literacy rate.

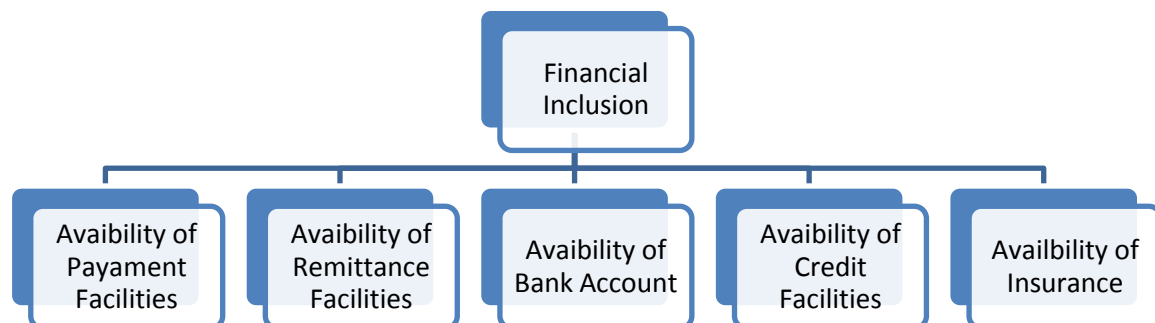
“Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.”

-By Rangarajan Committee

Indian Institute of Banking & Finance (IIBF) opines, “Financial inclusion is delivery of banking services at an affordable cost (‘no frills’ accounts,) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society”

There may be chances high educated people have higher access of financial services.

In India rural population is not availing benefit of developing economy. Low level of financial inclusion in rural area may be the reason behind this. To improve the rural economy we need to put effort for financial inclusion and it could be done through various ways which are demonstrated in following figure.



Literacy rate is one of the major social indicators of financial inclusion. Literacy provides the information about the rights and facilities available to every individual and it leads to financial inclusion. Although there is a difference between literacy and financial literacy but basic literacy act as a main pillar for the national growth and development. Literacy rate of India was 74.04 % and male literacy rate was 82.14% whereas female literacy rate was 65.46% as per census data of 2011.

In this study we tried to find out significance of financial inclusion in India and reason for the increasing the importance of financial inclusion now a days, we study various initiatives taken by various organizations for promoting financial inclusion and to identify relationship between literacy level and level of financial inclusion of different states.

SIGNIFICANCE OF FINANCIAL INCLUSION

Literacy as well as financial inclusion is essential for both developed and developing economies. Access to banking services is extensive hence people are required to be educated to access such banking services. In India access to banking services itself is lacking. Therefore it is essential to gather knowledge about banking services for expanding the outreach and inclusiveness of the financial system. It is also utmost important that literate people are financially literate. Financial inclusion is

important in India to create a platform for inculcating the habit to save money, to provide formal credit avenues and plug gaps and leaks in public subsidies and welfare programmes.

FINANCIAL INCLUSION INITIATIVE

In India various initiatives are taken for the promotion of financial inclusion. Several policy initiatives like nationalization of banks, establishment of regional rural banks, prescription of priority sector targets, lending to weaker sections at concessional rates, introduction of lead bank schemes, branch licensing norms with a focus on rural/ semi urban branches, were taken to address the issue of non availability of banking services to the urban privileged and weaker section of the society.¹

RBI, the central bank of India plays a vital role in that. RBI's vision for 2020 is to open nearly 600 million new customer's account and to serve them². RBI advised all banks to open basic saving bank deposit (BSBD) accounts, to facilitate easy opening of bank account by relaxing and simplifying KYC norms, simplified branch authorization policy, compulsory requirement of opening branches in un-banked villages, opening of intermediate brick and mortar structure, public and private sector banks had been advised to submit board approved three year Financial Inclusion Plan (FIP) starting from April 2010. FIPs should be disaggregated and percolated down up to the branch level. In June 2012, revised guidelines on Financial Literacy Centres.

Mr. Narendra Modi in his first Independence Day speech on 15th August 2014, had announced the National Mission on financial inclusion titled "Pradhan Mantri Jandhan Yojana". Swabhimaan is a campaign of the Government of India which aims to bring banking services to large rural areas without banking services in the country. It was launched by Smt.Sonia Gandhi.

LITERATURE REVIEW

Sayantani Banerjee and Greeshma Francies (2014) conducted a study on financial inclusion and social development with the objective to find out the relationship between social development and financial inclusion on the basis of three criteria poverty eradication, employment generation and social harmony. They conclude that in India states like Kerala and Maharashtra are higher financial inclusion rate at the same time Punjab and Tamilnadu are on average rate of financial inclusion and on the other side states like Mizoram have lower rate of financial inclusion and higher human development index. And states like Orissa and Bihar have very low rate in both parameters i.e. financial inclusion and social development.

Sonu Garg and Dr. Parular Agarwal(2014) did research on financial inclusion in India – A review of initiatives and achievement. Objective behind their study were to understand the financial exclusion and its extent, to understand the financial inclusion and its importance, to find out the approaches adopted by the banks, steps taken by the regulatory bodies and various government initiatives to achieve financial inclusion, and to analyze the past years performance and achievement towards reaching out to unbanked areas under financial inclusion. They conclude that people in tier 3 to tier 6 in entirely needs to be addressed by providing easy availability of financial services to the last mile users. They said that for the progress of financial inclusion program initiatives like innovative products, out of the box services models, effective regulatory norms and leveraging technology together could help in it.

Pallavi Gupta and Bharti Singh (2013) did a research on Role of literacy level in financial inclusion in India: Empirical evidence with objective to assess the correlation between the usage dimension of financial inclusion index and literacy level in India and they conclude that lower literacy rate is not main reason for low financial inclusion in states. They suggested that for achieving financial inclusion government should focus on behavioral factors.

An Analytical Study on Relevance of Financial Inclusion for Developing Nations (2013) carried out by Dr. Anupama Sharma and Ms. Sumita Kukreja. Major focuses of their study were to analyze the

¹ Financial inclusion and financial literacy cell

² An Analytical study: Relevance of Financial Inclusion for Developing Nations, International Journal of Engineering and Science, ISSN: 2278-4721, Vol.2, Issue 6(15-20)

current status of financial inclusion in Indian Economy and to explore the significance of financial inclusion for social development of society. In their study they conclude that to achieve inclusive growth, India has to look upon the financial inclusion aspects.

D. Srijanani (2012), conducted a study on "Financial Inclusion: Taking Banking Services to the Common Man" with the objectives to study the Indian and Global experience of promoting financial inclusion and steps taken towards financial inclusion by Government of India and the other major focus of the study is to analyze the present scenario of financial inclusion in India. He reach to the conclusion that banks have to prepare their strategy for financial inclusion with the help of Microfinance Institution and local communities by providing services like no frill account, user friendly ATM machines for illiterate people and technological advanced banking products etc.

Mr. Nageswara Rao had done a research on "Financial Inclusion and Indian Banking System – The way ahead". In the study he mention that to serve million of poor villagers banks need to put extra cure and he quote that "Technology with human touch" and with this he put emphasis on human side of banking and further he quote that "The future lies with those who see the poor as their customer." Here in this quote he put emphasis on role of poor in the banking business.

OBJECTIVES

To study the significance of financial inclusion in India.

To study various initiatives taken by various organizations for promoting financial inclusion.

To find out the gap between literacy rate and percentage of households availing banking services in different states of India.

To identify the relationship between literacy rate and level of financial inclusion of different states in India.

RESEARCH METHODOLOGY

For the study purpose secondary data were used. For the study purpose data of literacy rate and percentage of population with banking services of all states were collected from the recent census 2011 and ministry of finance (Department of Financial Services, GOI) respectively. To study the relationship between literacy rate and level of financial inclusion, the Karl Pearson Coefficient of Correlation has been used by using SPSS software.

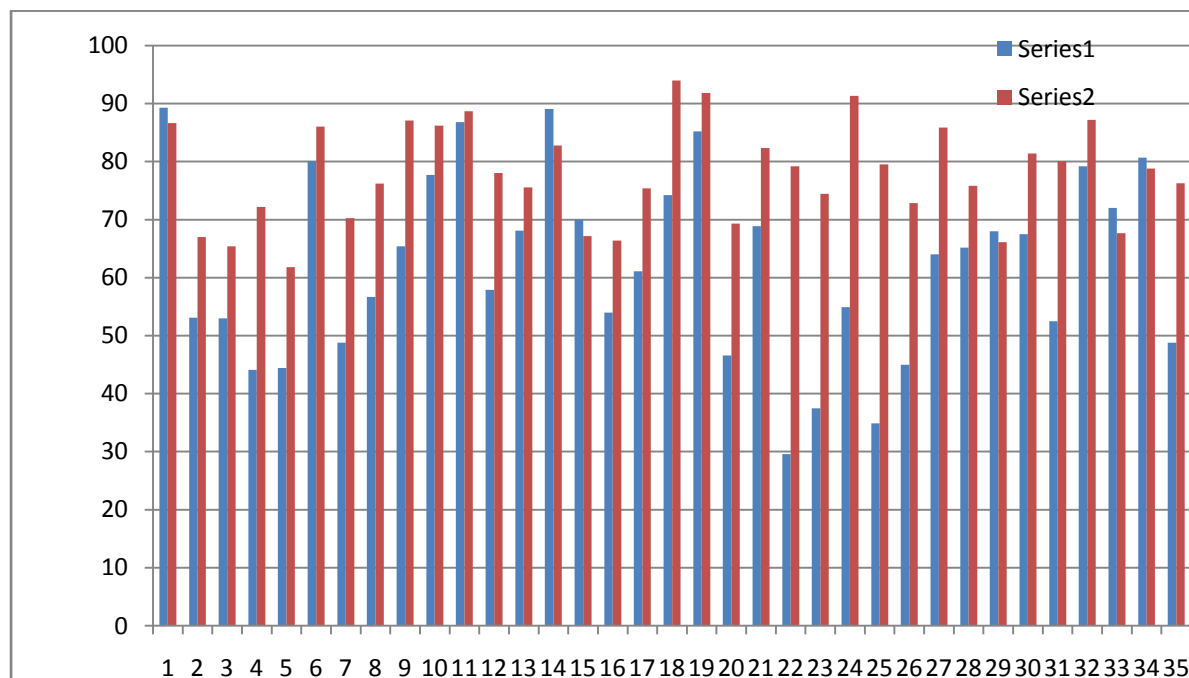
$$r = \frac{n\sum xy - (\sum x)(\sum y)}{\sqrt{n(\sum x^2) - (\sum x)^2} \sqrt{n(\sum y^2) - (\sum y)^2}}$$

DATA ANALYSIS AND DISCUSSION:

Table: 1 Literacy Rate and % of Households Availing Banking Services in India

States	% of Households Availing Banking Services	Literacy Rate
ANDAMAN & NICOBAR	89.3	86.63
ANDHRA PRADESH	53.1	67.02
ARUNACHAL PRADESH	53	65.38
ASSAM	44.1	72.19
BIHAR	44.4	61.8
CHANDIGARH / UT	80.1	86.05
CHHATTISGARH	48.8	70.28
DADRA&NAGAR HAVELI /UT	56.7	76.24
DAMAN & DIU	65.4	87.1
DELHI	77.7	86.21
GOA	86.8	88.7
GUJARAT	57.9	78.03
HARYANA	68.1	75.55

HIMACHAL PRADESH	89.1	82.8
JAMMU & KASHMIR	70	67.16
JHARKHAND	54	66.41
KARNATAKA	61.1	75.36
KERALA	74.2	94
LAKSHADWEEP	85.2	91.85
MADHYA PRADESH	46.6	69.32
MAHARASHTRA	68.9	82.34
MANIPUR	29.6	79.21
MEGHALAYA	37.5	74.43
MIZORAM	54.9	91.33
NAGALAND	34.9	79.55
ORISSA	45	72.87
PUDUCHERRY	64	85.85
PUNJAB	65.2	75.84
RAJASTHAN	68	66.11
SIKKIM	67.5	81.42
TAMIL NADU	52.5	80.09
TRIPURA	79.2	87.22
UTTAR PRADESH	72	67.68
UTTARAKHAND	80.7	78.82
WEST BENGAL	48.8	76.26



It is observed that many states in India having higher literacy rate but Percentage of households availing banking services is very less. State like Manipur which have 79.21% literacy rate but surprisingly percentage of households availing banking services is 29.6% only. Same kind of situation is facing by states like Meghalaya, Mizoram and Nagaland which have vast difference between literacy rate and percentage of households availing banking services which is 36.93%, 36.43% and 44.65% respectively.

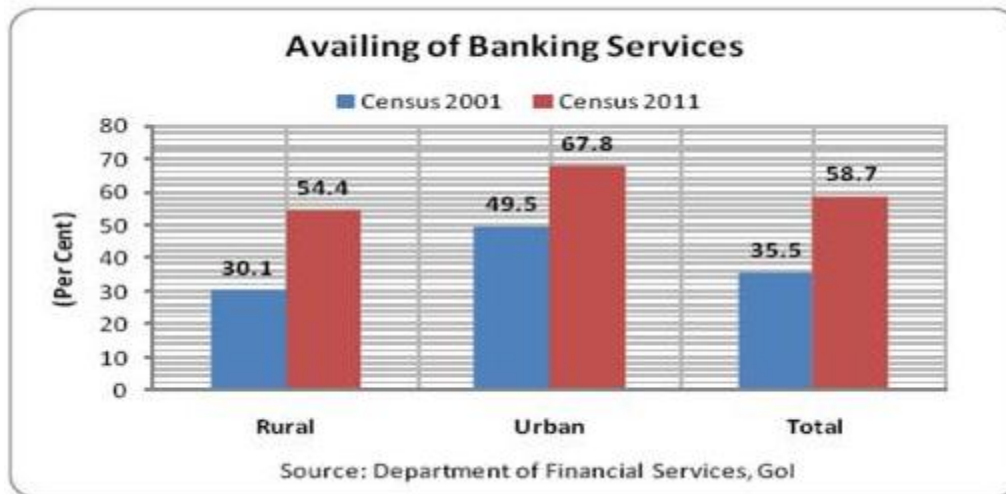


Table- 2: Correlations between percentage of households availing banking services and literacy rate

		% of households availing banking services	literacy rate
% of households availing banking services	Pearson Correlation	1	.505**
	Sig. (2-tailed)		.002
	N	35	35
literacy rate	Pearson Correlation	.505**	1
	Sig. (2-tailed)	.002	
	N	35	35

** . Correlation is significant at the 0.01 level (2-tailed).

In the above table Pearson Correlation is 0.505. It can conclude that there is a moderate correlation between percentage of households availing banking services and Literacy level. Because Pearson correlation is positive so it can be said that increase level of literacy rate leads to increase in the Percentage of households availing banking services. The significance value (2 – Tailed) is 0.002. This value is less than 0.05 which indicate statistically significant correlation between Percentage of households availing banking services and literacy rate.

CONCLUSION

There is a moderate correlation between percentage of households availing banking services and literacy level so it cannot be said that literacy level is a main factor affecting to percentage of households availing banking services. From the study it can be said that there may be many other behavioral factors which government has to take in to consideration while preparing strategy for the financial inclusion. Banks have to play a key role to increase the financial inclusion. Banks have to prepare strategy to generate awareness about various financial products and services, basic financial education, money management and savings habits etc. Banks should cover the bottom of the pyramid people and rural area people in India which still remain unbanked.

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