

EMPIRICAL STUDY ON RELATIONSHIP BETWEEN FINANCIAL INCLUSION AND FINANCIAL LITERACY AND ITS IMPACT ON CONSUMER FINANCIAL BEHAVIOUR: A THEORETICAL FRAMEWORK OF UNBANKED PEOPLE

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Abstract *Financial Education and Financial Inclusion plays an important role in framing the Reserve Bank of India's guidelines developed for overall national development. Financial Inclusion (FI) and Financial Literacy (FL) are the two pillars of our economy: FL encourages demand side – making awareness of money to be claimed and FI performs as giving side providing the financial market/services. FI means that it is the procedure of allowing admittance to suitable financial products and services essential by susceptible group, such as unbanked groups at a reasonable cost in a fair and apparent approach by various financial institutions. FL is the learning and accepting of various money linked areas. It helps in analyzing and supervising personal finance in a realistic way and involves the information of building right decisions. The survey was conducted to analyze the impact of FL and inclusion on the consumer financial behavior. The study was conducted in the different nearby areas of Chandigarh and 50 respondents had been selected basically unbanked people. The survey has been done with the help of comprehensive questionnaire. The study reveals the positive and significant relation between the FL and the financial behavior. In this research, review has been done regarding the complexity of the issue of FI, the linkages between FL and FI, its accessibility, and its impact on consumer financial behavior.*

Keywords: *Financial Education, Financial Literacy, Consumer Financial Behavior, Financial Services*

JEL Classification: *G10, G32, G35*

INTRODUCTION

Systemic consumer financial behavior is a base as well as preliminary summit for the thriving management of financial products and services, for consumer learning and security procedure. It is an area at the inter-section of behavioral finance, micro-economics and marketing. Systemic consumer financial behavior is based on various behavioral theories from financially viable and social psychology.

Financial education and inclusion are the two important fundamentals in the Reserve Bank of India's developmental role. Financial Inclusion (FI) means that it is the procedure of allowing admittance to suitable financial products and

services essential by susceptible group, such as unbanked groups at a reasonable cost in a fair and apparent approach by various financial institutions. The most marked aspects of the governance have been social inclusion of which FI is a most essential element. Financial literacy (FL) acts as a fundamental role in FI, along with the expansion and growth. Global partnership for FI has defined FI as a condition which includes all effective age adults who have central right to use reserves, credit, disbursement and indemnity from various service providers. Accessibility includes suitable and dependable product and service delivery ways at a charge realistic to the purchaser and sustainable for the service contributor so that unbanked people discriminate monetary services rather than familiar channel that provide proper but expensive services.

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RBI has enabled the financial institutions to achieve larger FI to make accessible 'no-frills' banking account. General credit cards (GCCs) were subjected to unbanked people, the deprived with an idea to support them an easy access to recognition. In year (January 2006), the RBI officially authorized various banks to employ the facilities of microfinance institutions, (NGOs/SHGs) for giving financial and banking services. These mediators could be used as business facilitators or correspondents by various business-related banks. The RBI has directed the banks to kick-off 100% FI constrain on a survey basis. Due to drive, many states or union territories declared 100% FIs in all areas.

The GOI has launched 'Pradhan Mantri Jan Dhan Yojna' a national FI vision, which directs to afford bank accounts latest by January 26, 2015 to at least 75 million people. Therefore, it is vital for service providers and strategists to have requisite information demarcating the bridge in admittance and comprehend measures that help superior comprehending the situation according to the respective area or district.

LITERATURE REVIEW

A literature review is a body text that aims to review the critical points of current knowledge, including substantive findings as well as theoretical and methodological contributions to a particular topic. Literature reviews are secondary sources and as such do not report any new or original experimental work. Its ultimate goal is to bring the reader up to date with current literature on a topic and forms the basis for another goal, such as future research that may be needed in the area. To design the present study in a scientific manner, the researcher surveyed a good amount of research work and literature carried out in the area of FI. There are some of the reviews of the studies which had been previously undertaken in the field of FI.

Literature on FL and FI can be easily established; material is available on financial education and its related aspects as financial inclusion, financial knowledge, financial attitudes, financial behavior and FL.

Beal and Delpachitra (2003) outlined that there are five main skill areas of FL – which are basic concepts, instruments of the financial markets, financial products, decision-making, planning, analysis and insurance. The researchers are of the view that students were neither skilled, nor knowledgeable in financial matters. Similar study has been done by Commonwealth Bank Foundation's Australian Financial Literacy Assessment (2005) enlightening that there is no bank account of around 50% respondents. Lusardi and Mitchell (2007) found that there is a lack of relationship among the masses and less awareness to various investors

about understanding of interest compounding, effects of price rises and risk diversification, emphasizing low FL. Atkinson and Messy (2012) asserted that there is a widespread paucity of awareness in people about financial matters like stock markets, budgeting and insurance, etc.

Empirical evidence suggests that there is a constructive relation between FL and financial behavior in a number of behavioral areas. Financially literate people do better at various financial portfolios. (Moore, 2003; Morris & Perry, 2005); handling advance and previous debt (Campbell, 2006; Tufano & Lusardi, 2009); participating in fiscal markets (Lusardi Van Rooji) they reviewed that the term 'financial capability' and the term 'FL' are used interchangeably. In the paper empowering women through financial knowledge and learning, the literature stresses on the fact that women may have less experience and less formal learning (Robb & Fairli, 2009; Carree Verheul, 2009), they highlighted likely prejudiced boundaries on admittance to finance (Wydick & Kevane, 2001; Bushell, 2008; Talavera Muravyev et al., 2009; Borisov; Bellucci, 2010) constrained their learning to less marginable industries.

Women, Microfinance, and Empowerment: The hypothetical contradiction. Microfinance is considered as the main vital, anti-poverty and women empowerment instrument in the hands of institutional players all over the world (Rahman 2007), but there are many studies which are in favor of and many researches are against the argument of constructive effects of microfinance on women. Hashemi (1996) highlighted the concept of Grameen Bank which proved to be a winning paradox in women's empowerment in Bangladesh because it focuses on credit and use of rules in advance program procedures.

Sarkar (2000) reported that status in the family can be improved only if a woman plays greater financial role as beneficiaries of the microfinance procedures. Various authors (Rahman, 1996; Hashemi and Mahtab, 2007, 1996) also hold up the above opinion. In study in Bahawalpur, Pakistan, Nawaz (2012) highlighted that women's empowerment is affected by the concept of microfinance because they utilize microfinance as revenue generating behavior, and financial empowerment leads to rising the same within the family and society.

Campbell, Sodini, and Calvet (2009) appraise investors' performance by using Swedish data; they classify causality as mistakes between FL and behavior. Agarwal, Driscoll, Gabaix, and Laibson (2009) focus on financial 'mistakes', and these are most widespread across all the ages. Hilgert, Hogarth, and Beverly (2003) reveal that there is tough connection between FL and pecuniary executive skills. Evidence indicates that those who are economically literate can contribute more in financial markets and can invest in

diversified portfolios. (Jappelli & Padula; Shumway & Kimball, 2006; Lusardi, Van Rooji, Yoong, & Alessie, 2011; Dreber & Almenberg, 2011; Savignac, Arrondel, & Debbich, 2012). Is demanding to create an essential association between FL and economic behavior, being investigational approaches propose that FL do engage in a responsibility in influencing financial judgment making, leading in change from knowledge to behavior.

PROBLEM STATEMENT

There is lack of research on FI on developing positive financial behavior and favorable financial attitudes among the consumers. More systemic research in this area is needed. In most of the studies, only one dimension of FL, i.e., financial knowledge is considered and other dimensions, such as financial attitudes and consumer financial behavior (rational/irrational) were not considered. Upcoming study has been done to analyze the effects of FI on unbanked people but literate people.

OBJECTIVES

The objective of present study is to analyze the inter linkages between FL, rational and systemic irrational consumer financial behavior toward the FI. The objective is to develop a comprehensive FI model which will be helpful in improving the participation toward FI, especially by people who are at the bottom of the pyramid.

- To explore the need and importance of FI for economic and social development of society.
- To analyze the current status of FI and FL in Indian economy.
- To study the access of rural unbanked people to various bank branches.

METHODOLOGY OF THE STUDY

An attempt has been made to explore the importance of issues of FI in the eyes of unbanked people. The study used questionnaire to survey the importance of financial services items in view of various different employees/people below poverty line. The questionnaire was distributed to solicit the opinion of 50 unbanked people/employees of different firms on important items of FI. Every respondent received

a code questionnaire (for tracking purpose) together with a letter outlining the objective of the research, respondent confidentiality, and availability of survey result upon request. The weights were obtained by sending a list of the 25 items to respondents and asking them to grade the importance of each item on 1 to 5 scale, where 5 meant the item was totally agreeable, 4 meant the item was agreeable, 3 related to neutral, 2 meant disagree, and 1 related to totally disagree. The process of collecting data took approximately 4 months to complete.

FINANCIAL INCLUSION (FI) — POLICY INITIATIVES

Opening of no-frills accounts: The central bank had initiated ‘no-frills’ accounts in 2005 to encourage banking facilities to unbanked people and encourage FI. Banks accounts can easily be opened without or with very small balance.

Know-your-customer (KYC) norms: In August 2005, KYC fundamentals for opportunity to open a bank account were serene for little amounts, hence simplifying measures by which a holder of bank account who has been opened to the full Know Your Customer drive would be eligible to be termed as account holder.

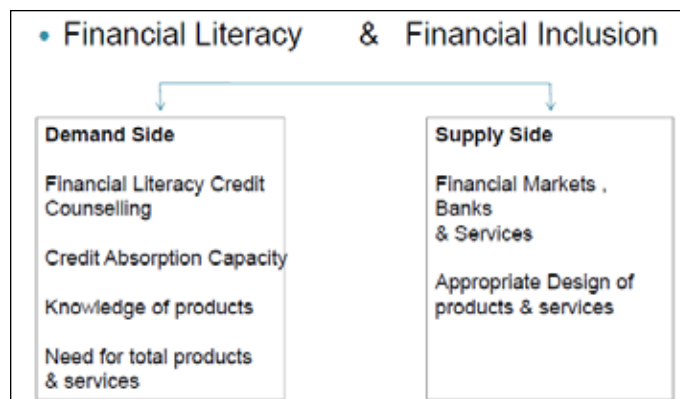
Business Correspondents (BCs): RBI was authorized to direct banks to appoint business facilitators (BFs) and BCs as mediators for providing attractive FI way back since 2006. This model permits banks to make available access way delivery of services, particularly cash in and cash out transaction.

General Credit Card: For unbanked people with admittance to easy advances (credit), banks have introduced a base called as credit card facility up to Rs 25,000 for unbanked people.

Branch authorization: Scheduled banks were allowed to open branches in areas with a population of less than 50,000 in December 2009.

Banks in unbanked rural centers: There is need for the opening new branches of banks as to develop banking access and fiscal enclosure in rural areas. Banks have been directed to distribute at least twenty five percent of the total amounts of branches to be released during financial year to unbanked rural centers.

TWIN ASPECTS OF FINANCIAL INCLUSION (FI)

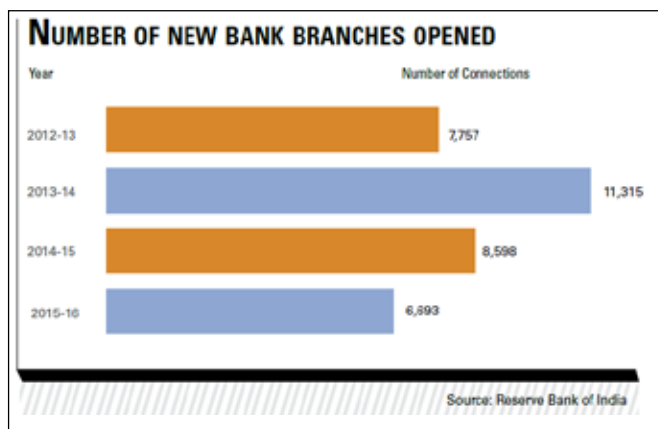


Source: BI OECD Seminar.

Financial Inclusion (FI) and Financial Literacy (FL) are two pillars of our economy: FL encourages they require demand side – making awareness of money to be claimed and FI performs as giving side providing the financial market/ services.

The Reserve Bank of India (RBI) has been providing direction to the banks regarding the progress for FI. In India, bulk population is below poverty line, FI is of immense value to them. Admittance to finance and ensuring the maximum consumption of the funds and wealth is a great challenge for the unbanked people. Risk increases volatility in the income having an adverse impact on the financial steadiness. Banks were believed to play a basic role in FI, but after certain limit the effect has been negligible.

The GOI has selected a special route—ahead policies and mandates—for ensuring FI. This special route includes RuPay card, Pradhan Mantri Jan Dhan Yojana, and Direct Benefit Transfer scheme, which directly provides the benefits to all level of the society. The RBI has initiated numerous measures for achieving 100% FI in districts having a large SC/ST population.



FINANCIAL LITERACY (FL) — RBI APPROACH

FL is the learning and accepting of various money linked areas. It helps in analyzing how to supervise personal finance in a realistic way and involves the information of building right decisions about private funding such as investing, assurance, withdrawal and wealth and tax planning. FL involves the expertise of financial values and principles and major concepts like compound interest, financial arrangement, supervision debt, commercial reserve techniques and the worth of wealth giving due consideration to time. Lack of monetary literacy or financial illiteracy may lead to unexpected financial choices that will have unconstructive penalty on the monetary well-being of a person. FL and Education Commission were created by Government which ensures resources for people who are willing to learn more about FL.

Measuring FL is a crucial step in formulating a strategy:

- It ensures rigid suggestion on the various issues faced and the groups with major difficulties.
- Allows policymakers to recognize priorities and set targets.
- Provides a baseline from which to measure change.
- An international comparable standard helps policy-makers to increase level of FL.

FINDINGS AND DISCUSSION

Dimensions of Financial Inclusion (FI) and Financial Literacy (FL)

Content attributes focus on what is delivered to the unbanked people. In particular, they report the availability of issues of FI and literacy among unbanked people. To determine the importance of dimension of FI, respondents were required to provide feedback on 25 items. Respondents views were measured by using five point Likert scale ranging from 'totally agree' to 'totally disagree', with respect to each item. The Weighted Average Scores (WAS) for content items were calculated by allocating the weights 5,4,3,2,1 to the responses 'totally agree', 'Agree', 'neutral', 'Disagree' and 'totally disagree' in that order. Table 1 shows the items important in content dimension measured by the value of mean. When two content items had equal mean value, the ranking was decided on the basis of smaller standard deviation. Smaller standard deviation means smaller variability and the data are closer to mean. The study used the importance score minimum of 3.50 (Khan & Siang, 2013; Khan & Ismail, 2014) using the cut-off point to measure the applicability/ importance of FI.

**Table 1: Employees' Responses (Unbanked People)
Towards the Issues of FI and Consumer Financial Behavior**

Descriptive Statistics				
Sr No	Variables	N	Mean	Std. Deviation
1	FI affects consumer financial behavior	50	4.5000	.50508
2	FI is directly linked to FL	50	4.3800	.49031
3	Financial Behavior of unbanked people is totally rational	50	4.3400	.74533
4	Percentage of Awareness of FI has increased after FL	50	4.3400	.76533
5	Ratio of number of business correspondents and unbanked people has enhanced	50	4.2600	.69429
6	Increased adoption of EBT (Electronic Benefit Transfer)	50	4.2600	.72309
7	Relaxation on Know your customer norms	50	4.2400	.68690
8	Adoption of FI has simplified branch authorization	50	4.2200	.73651
9	Increased bank branches in rural areas	50	4.1400	.78272
10	Is FI a global player	50	4.1400	.79272
11	Do FI embraces Environmental Credit	50	4.1400	.80837
12	FI enhances credit and debit card access	50	4.1200	.71827
13	FI reduces cost of financial services	50	4.0800	.77828
14	Lowered the ratio of unbanked people	50	4.0800	.82906
15	Multiple providers of financial services	50	3.9800	.79514
16	Increased response towards Financial Application	50	3.9600	.80711
17	Favorable changes in working of the banks	50	3.9400	.76692
18	FI has become a need of an hour	50	3.3400	.82338
19	FI is important for social development of society	50	3.0400	.69869
20	Positive change in behavior of unbanked people	50	3.0000	.80812
21	FL increases FI	50	2.6600	.65807
22	Financial transaction has been made easy for rural people	50	2.3000	.76265
23	RBI plays vital role in FI	50	2.2200	.81541
24	Has FI decreased the rate of unbanked people in rural areas	50	1.7200	.75701
25	FI and FL is an eye wash and it has been adopted as cover up	50	1.4800	.54361

ANALYSIS AND INTERPRETATION

The table 1 shows that the content item 'FI affects consumer financial behavior' has been rated by respondents as totally agreed component of FI as having (Mean-4.500). This has been followed by the next item 'FI is directly linked to FL' having (Mean-4.38); 'Financial Behavior of unbanked people is totally rational and Percentage of Awareness of FI has increased after FL' showing a direct impact of FL on inclusion (Mean-4.34); item 'Ratio of number of business correspondents and unbanked people has enhanced and Increased adoption of EBT (Electronic Benefit Transfer)

(Mean-4.26); item 'Relaxation on Know your customer norms' (Mean-4.24); item 'Adoption of FI has simplified branch authorization' (Mean-4.22); item 'Is FI a global player, increased bank branches in rural areas and do FI embraces environmental credit' (Mean-4.14); item 'FI enhances credit and debit card access' (Mean-4.12); item 'FI reduces cost of financial services and Lowered the ratio of unbanked people' (Mean-4.08); item 'Multiple providers of financial services' (Mean-3.98); item 'Increased response towards Financial Application' (Mean-3.96); item 'Favorable changes in working of the banks' (Mean-3.94); 'FI has become a need of an hour' (Mean-3.34); item 'FI

is important for social development' (Mean-3.04); item 'Positive change in behavior of unbanked people (Mean-3.00); item 'FL increases FI' (Mean-2.66); item 'Financial transaction has been made easy for rural people' (Mean-2.30); item 'RBI plays vital role in FI' (Mean-2.22); item 'Has FI decreased the rate of unbanked people in rural areas' (Mean-1.72).

The above analysis revealed that 17 items listed under FI dimension were categorized as important items (the mean exceeded 3.50). The balance of 08 items was categorized as unimportant (mean lesser than 3.50). Further, out of 25 important items, 14 items were considered as most important (mean exceeding 4.00). This showed the importance of dimension of FI among unbanked people in rural areas. Among the top five disclosure items for FI among employees are: (1) Consumer Behavior (2) FL (3) Increased Awareness of FI (4) Financial Behavior (5) Business Correspondents, and the five content items perceived as 'least important' are: (1) FL is an eye wash (2) Positive behavior (3) Role of RBI (4) Decreased rate of unbanked people and (5) Impact of literacy on FI. The finding of the study is consistent with the findings of Khan and Siang (2013); and Khan and Ismail (2014).

CONCLUSION

The aim of this study is to explore the perceptions of employees in India regarding the important items of FI and FL. The findings showed the importance of various dimensions of FI and literacy among the unbanked employees. Financial Behavior is an evolving process and not an end. FI in the eyes of employees specially the unbanked people includes the main dimensions as the awareness of FI, relaxation in norms of banks, lowering the ratio of unbanked people, role played by different banks, various banking policies, and role of business correspondents. The findings of this study give a constructive output for the researcher to analyze the different dimensions of FI and establishing the relationship between FI and FL in a better way. The objective of this study is to amplify awareness by circulating information about general banking concepts to different target groups specially unbanked people. Financial education has been promoted as a countrywide movement by Securities Exchange Board of India. Financial education (FE) is given to a variety of intended and targeted segments viz. students, working people, middle income group, women, retired persons, SHGs etc. SEBI has conducted variety of provincial seminars through assorted stakeholders' viz., Association of Merchant Bankers, Depositories, Mutual Funds Association, Stock Exchanges, etc.

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