

FINANCIAL INCLUSION SITUATION IN INDIA



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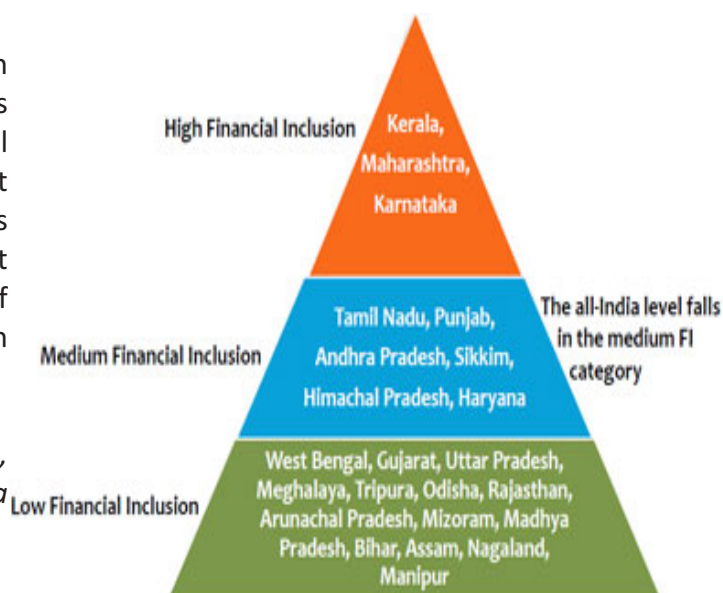
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ABSTRACT

Ever since India's independence in 1947, the biggest priority for the nation has been its economic growth, education for all and financial inclusion for the vast population of the country. While India has made some noteworthy progress in the past six decades and more, but on the aspect of financial inclusion, progress has not been satisfactory.

KEYWORDS : *Financial Inclusion Situation , economic growth , Reserve Bank of India (RBI).*



INTRODUCTION :

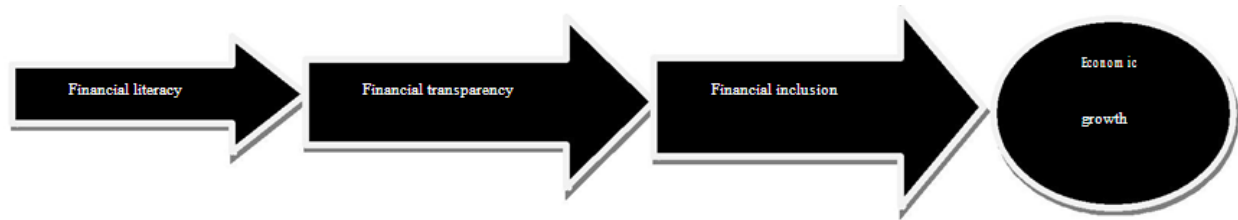
Along with the regulation of the banking sector in the country, the Reserve Bank of India (RBI) has been also spearheading the movement for financial inclusion. Accordingly the RBI "describes financial inclusion as the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players."

In a country where the vast majority of the population is still very poor, financial inclusion is of great significance to them. For the poor, access to finance and ensuring the optimum utilization of the resources they possess is a major challenge. Economic and societal uncertainties mean volatility in their income can have an adverse reaction on the financial stability. This exposes the poor to the dodgy moneylenders, which in turn can lead to debilitating debt trap.

One of the biggest components of financial inclusion is financial literacy. No matter how many banks you open and how many branches you have on the ground, if a person does not know about the financial options that are open to him, policies, schemes and financial instruments will mean little. It is important for a person to firstly know what to look for and only then think of the benefits that he can obtain from it? The digital economy can be strongly leveraged to spread financial literacy.

OBJECTIVES OF RESEARCH:

- To understand the reasons behind financial illiteracy in Indian society and
- To emphasize the need of financial literacy in current scenario



RESEARCH DESIGN

The design of research study is exploratory. The data used is secondary. i.e. data is collected from various sources such as magazines, journals, research papers, newspapers etc. Different websites are also being studied to collect the required data.

FINANCIAL LITERACY - THE DIGITAL WAY

Financial literacy through the use of technology has to be based on three principles: to effectively use the power of mediums like a computer, mobile and Internet to enable people to have the skills, knowledge or information about financial instruments. Secondly, we must ensure people then have the ability to critically understand the content they have received through digital means and lastly apply it to the best of their knowledge and capacity.

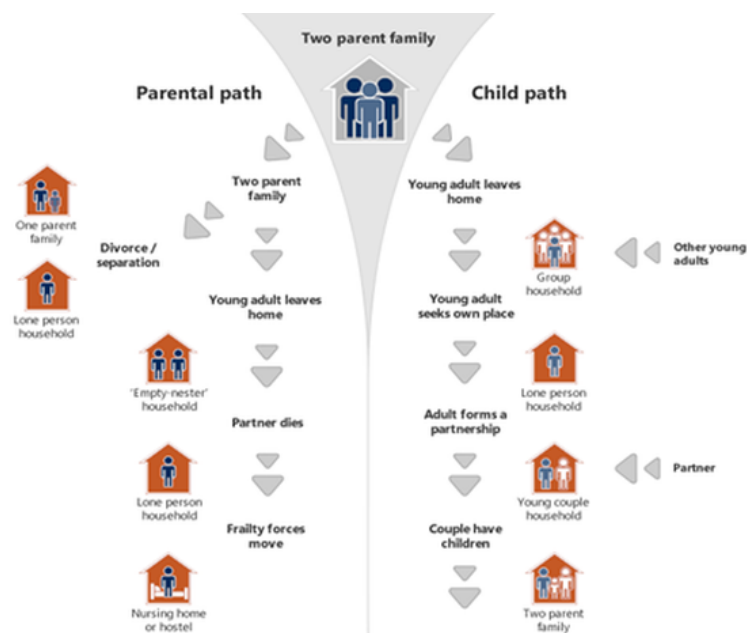
While it may seem unimaginable to think that the poor would stand to benefit from technology due to their lack of technological skills, nothing can be further from the truth. It has been proven time and again that if it's simple and effective, technology is a big enabler for the poor. Banking correspondent services that are operating across far flung villages in the country has proved that technology can go a long way to bridge the divide.

Why it also helps is that it allows information to be democratized. In the financial world information is often the difference between getting a lemon of a deal or a favorable one. Technology has now enabled information to percolate to even the remotest of villages. It also allows interaction between people and the ability to question the best in the business. By enabling connections, technology has also bridged the geographical difference.

MOBILE COURSE DELIVERY

As a country, India has seen rapid growth in mobile adoption and today more than 70 % of the population holds a mobile phone. Of that, according to Internet and Mobile Association of India (IAMAI) and IMRB International, the mobile Internet penetration in rural India is expected to Financial services' needs at different stages of a poor household's life cycle.

Going back to the drawing board, it is important to work with the premise that financial services' needs of an individual vary primarily by age. While these also depend on financial status, social status and other factors, let us keep that constant and consider the life cycle of a poor household (primary target beneficiaries of financial literacy programmes). Children initially stay with parents and go to school. Following studies, they may move out of the parents' house and begin to live on their own (or with friends/ housemates) and earn their own living. They then get married, form a couple and start their own family. By this stage, the parents are old, with reduced income levels because of lower physical capacity to work. They seek support from their children who have just been endowed with new responsibilities of a family, with children of their own to raise. The cycle continues with these children getting educated, moving out to find a job and then eventually raising their own families, while assisting their parents.



Considering all of these specific financial services' requirements at various junctures in life, four teachable moments can be identified: school-going child (grown up enough to understand money and saving), youth (stepping into employment), middle-aged (married, and starting a family), and old age. These are the specific stages of transition, when the need for financial products/ services takes a leap and it is crucial to make the right financial decisions. Thus, these moments are best suited for receiving and benefitting from customised money management advice.

Customising financial literacy modules based on stages of life

After establishing the 'what' and 'when' of financial literacy, it is important to understand the 'how' of it. As an individual ages, a lot of psychological and behavioural attributes change, as per the social, political or economic environment. The three prime attributes that notably differ with each of the four stages of life and should be thought through well while designing any education module, but especially a financial literacy module, are: attention span, cognitive ability, and general points of attraction.

Financial Literacy in Indian scenario: Problem Area

Financial literacy has gained importance for country like India where literacy rate is low and people in rural areas are still out of access of basic financial set up and services. Indians are suffering from the financial disease like underinsurance, debt trap, insufficient retirement fund, low return on investment etc., and the cause of all these is one and the same i.e. "Financial Illiteracy" (Jariwala Harsha and Sharma Mahendra, 2011). Only providing financial products to rural or urban areas is not sufficient, people need to be well-informed in terms of fundamental financial products, knowhow of financial market, benefits of availing financial services.

After the series of economic reforms of India in 1991, the saving rate as a % of GDP is increasing. Now India has one of the highest saving rates in the world, but unfortunately due to lack of financial awareness, the allocation of these savings is not equally productive. Investments by households have

been predominantly in secured avenues. Recent scenario of the Indian financial market shows that, much of the financial savings of the household sector are in the form of bank deposits (around 30 % in the 2000s), life insurance funds (22 % in the 2000s as against 9.6 % in the 1980s), and pension and provident funds (16.5 % in the 2000s as against 23% in the 1980s). There has been a decline in the proportion of pension and provident funds, particularly since the late 1990s.

Shares and debentures accounted for 8.3 per cent of total financial savings in the 1980s; their share increased to nearly 13 percent in the 1990s before declining to 4.8 per cent in the 2000s. Table 1 shows the gross Domestic savings in India from 2006-07 to 2013-14. The values shown in Table 1 reveal that out of the total Gross domestic savings, a major portion is contributed by household. It also shows that Indian people mostly invest in physical assets rather than financial savings i.e. stock market securities. Such lack of interest in financial savings can be due to financial illiteracy.

TABLE-1: DOMESTIC SAVING IN INDIA (% OF GDP)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14 (Estimated)
Gross Domestic Savings	34.6	36.8	32.0	33.7	34.0	30.8	31.0	32.4
Household Savings (a+b)	23.2	22.4	23.6	25.2	23.5	22.3	22.8	22.7
Financial saving(a)	11.3	11.6	10.1	12.0	10.4	8.0	9.6	10.0
Saving in physical asset(b)	11.9	10.8	13.5	13.2	13.1	14.3	13.2	12.7

Source: Compiled from data retrieved from website of Central Statistical Organisation (India)

Financial Literacy: India versus Other Countries

Recently MasterCard conducted a survey of Financial Literacy and later Financial Literacy Index (2013H1) has been created. Survey was conducted between April 2013 and May 2013 on 12,205 respondents aged 18–64 in 27 countries across 3 key regions: Asia/Pacific, Middle East and

Africa (APMEA). The Index comprises questions covering three major components: Basic Money Management (50%) Financial Planning (30%) and Investment (20%). There are 16 countries included in the Asia/Pacific region: Australia(AU), New Zealand(NZ), China(CN), Hong Kong(HK), Taiwan(TW), Japan(JP), Korea(KR), Bangladesh(BD), Malaysia(MY), Philippines(PH), Thailand(TH), Indonesia(ID), Singapore(SG), Vietnam(VT), India(IN) and Myanmar(MM). The results as revealed by the study were compiled in Financial Literacy index shown below:

FINANCIAL LITERACY INDEX

COUNTRY	RANK	FLI
NEW ZEALAND	1	74
SINGAPORE	2	72
TAIWAN	3	71
AUSTRALIA	4	71
HONGKONG	5	71
MALASIA	6	70
THAILAND	7	68
PHILIPPINES	8	68
MAYANMAR	9	66
CHINA	10	66
BANGLADESH	11	63
VIETNAM	12	63
KOREA	13	62
INDONESIA	14	60
INDIA	15	59
JAPAN	16	57

Source: MasterCard survey 2013: Financial literacy Index

In terms of overall financial literacy, India is at the bottom among 16 countries in the Asia-Pacific region. India is one step above (with 59 index points) from Japan (57 points). 7756 respondents aged 18-64 years participate in survey from India. Interestingly, the financial literacy scores for Indians aged 30 and above were 59 compared with 61 for those less than 30 years of age of other countries. Still the financial literacy rate among younger population in other countries is much higher than that of matured Indian population.

CONCLUSION

For enhancing financial literacy, the focus on the common man is particularly necessary in India. Financial literacy is important because better-educated consumers will make sound decisions. The benefits of enhanced financial literacy may be great. On a personal level, individuals may save more and manage their financial affairs in a better manner. There may even be general equilibrium effects: increased demand households for financial services may improve risk sharing, reduce economic instability, improve intermediation, and speed overall financial development. This in turn could facilitate competition in the financial services sector and, ultimately, more efficient allocation of capital in society. By giving the emphasis on education in India, it should be possible to enhance the financial literacy of youngsters relatively quickly by adding relevant material on financial literacy in the general education program of schools and colleges.

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