

Survival and growth strategy for financial inclusion in India: A diagnostic study with special reference to financial literacy

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Abstract

In current era of socio-economic development financial inclusion is one of important ingredients. In socio –economic development transparency, timely delivery of financial resources to ultimate beneficiaries is a challenge. Through banking services it is possible to deliver properly to ultimate beneficiaries direct transfer benefit (DBT) is one the example of the proper delivery of financial resources of welfare policies. But wide coverage of financial inclusion and self desire to use of financial services to each strata of population cannot possible without awareness and knowledge of different pros and cons of financial services. Awareness of financial services could be improve through by focus on financial literacy Because financial literacy play role as key deriver for financial inclusion. This paper aim is highlight different aspects of financial literacy, Suggest different strategy to achieve mile stone in financial literacy and discuss how financial literacy could contribute to better survival and growth of financial inclusion.

Keywords: Financial inclusion, Financial Literacy, financial products, financial education, financial inclusion demand, financial inclusion supply factor JEL Code: G2

1. Introduction

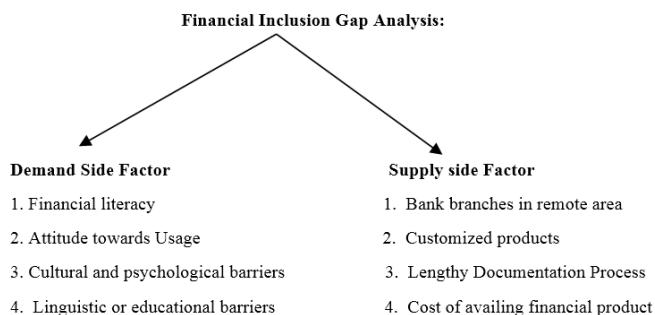
Financial inclusion is process of ensuring availability and uses of financial products and services to each strata of population of country. In current era financial inclusion considered as key driver of socio- economic development. From 1969 to till day Indian Government has taken several steps towards financial inclusion and major milestone has been achieved through different polices and schemes. Like 1969 commercial banks Nationalization, 1970 Lead Bank scheme, 1975 Regional rural bank set up, 1980 nationalization of 6 more bank, 1992 SHG linkage program, 2001 Kisan credit card, 2014 Pradhan Mantri Jan Dhan Yojana other many steps taken. Despite these steps there is still major population is excluded because as per *census 2011*, only 58.7 % Indian households are included from basic banking services and 41.3% people are financial excluded this is view of country whole. Condition of especially rural area is more pathetic because survey of *NSSO 59th* round 2003 shows 51.4% farmer households are financial excluded. Financial inclusion is supply side factor (Bhaskar, 2013). Till day government focused only supply side rather than demand side means Government made efforts for reach or availability of banking services but avoided motivational awareness and financial literacy factor which could spread financial inclusion in multifold manner because financial inclusion 100 % target cannot be achieve until unless people would not be self-motivated to use financial services. For self-motivation of customer for use of financial services, financial awareness or financial literacy is one of integral factor and financial literacy will be not only helpful to financial inclusion but also smooth process of banking services (UNDP, 2012) [6, 13]. For investigate status of financial inclusion of small business and low income households RBI appointed Nachiketa committee in 2013 this committee given report that 90% of low income group and small business man are excluded from formal financial services.

2. Review Literature:

According to United Nations (2006) [14]. financial inclusion is timely and properly delivery of financial services to underprivileged sections of society and further it also simplified definition financial inclusion as primary level where customer have access basic banking services and secondary level where customer have products more than basic banking services like investment and pension scheme. Planning Commission (2009) [15]. discussed financial inclusion is access of different financial instruments at very low cost and only open bank account is not over all financial inclusion it is first step of financial inclusion in broader term it include access of all formal investment and insurance instrument like mutual fund equity and derivatives, life insurance and general insurance etc. Mohan (2006) [16]. Discussed the importance of financial inclusion for poor household and highlighted financial inclusion as function which helps in saving their money with softy and security as well other financial services. Thingalya N.K., M.S. Moodithaya & N S Shetty (2010) [17]. in their book highlighted different indicator of financial inclusion and on those indicator basis financial inclusion can be evaluate. these indicators are banking services reach, branches of banks according to population and socio-economic environment. Ravichandran and Alkhatlan (2009) [18]. Explained various factors which affect financial inclusion authors divide these factors in two part demand side and supply side. Demand side factors are attitude of people, alertness towards usage of financial services, low income and financial literacy and supply side factors are bank branches, lengthy documentation, and irresponsible behavior of bank officials etc these. OECD 2005 [22]. Defines financial education (literacy) help investor or consumer to take right financial decisions because it gives better understanding of risk and return. it also enhance confidence to choose right financial product or services. Financial education defiantly a tool of value addition

for financial status of any person or community but this value addition depend how much they implement their personal life (Hira, 2012) [8]. Financial education is a tool which motivate people to avaiile financial services because it increase their confidence towards financial products and services as well as their management skills to proper manage their money (Adele Atkinson, 2013) [11]. Financial literate consumer take better financial decisions for his family and economic security which will lead socio- economic development (Hendrix *et al.*, 2002) [19]. Financial knowledge has directly co-relation with personal financial benefits and welfare (Hilgert *et al.*, 2003) [20]. Financial literacy is important catalyst through which sound financial system could be build another side it enhance greater transparency, investor protection, better polices implementation so financial literacy should be important agenda like financial inclusion in government policies and government should give equal importance (Jariwala H., 2011) [7]. In India reason behind financial exclusion is not only supply side (banking system or banking frame work) but also demand side factors (customer illitercy, need and attitude towards financial products and services) are equally responsible so there is need to focuss both side factor to achieve remarkable status in financial inclusion (Chattopadhyay, 2011) [4].

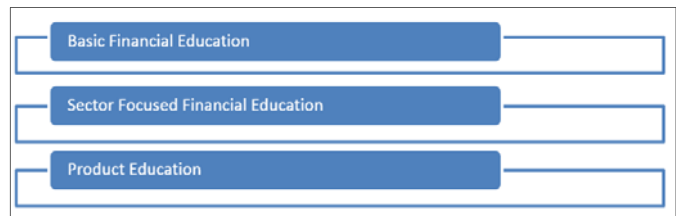
3. Financial Inclusion Gap Analysis



Financial inclusion Demand side factor indicates those factors which are associated with customer and supply side factors are those factors which are associated with banks and financial system of country. Equilibrium in Financial inclusion of demand and supply factor could be bring through focus on demand and supply side factors because demand side factor motivate to use and demand of financial products or services and supply side factors also help to meet-out need of customer. till day Government of India made most of the effort for supply side factor and for demand side efforts was very negligible so it, s created a gap of financial inclusion. Demand side factor financial literacy attitude towards usage, cultural, psychological barriers and linguistics or education barriers are prominent factors. These factors motivate peoples for financial exclusions. These demand side factor play important role to ensure people for adoption, usage of banking and financial system as well as it also make aware different opportunities and threats of different financial products and services (UNDP 2012) [6, 13].

4. Components for Financial Literacy:

1. Rational Financial management
2. Information Access
3. Risk & Return Analysis
4. Transparent information and Investor protection



Source: <https://rbi.org.in/Scripts/PublicationDraftReports.aspx?ID=675,2012>

Basic education refers knowledge of benefits of formal banking services like savings, deposits and loan or credit, Sector focuss Financial education means give proper knowledge to target customer like stock market education to traders or investor of stock market education and Product education make aware prospect clients through other than the manufacturer (RBI,2012).

4. Step to be taken for financial literacy

OECD 2013 discuss Financial literacy is global policy interest for enhancement of financial inclusion and investor protection. Problem financial inclusion and financial literacy need to tackale in proper strategy to tackale the problem and maintain demand and supply side equilibrium. For financial literacy policy makers can take different steps on segment basis this segmentation could be according age group, profession, income etc. these steps could be possible

1. **Step 1 School education Scheme:** The OECD's (2005b) [22]. Improving Financial Literacy has given 9 principle in these principle one of the important principle was to give financial education from primary school level. For colleague student basic financial management skills should enhance through incorporate small portion in curriculum and seminar, conference and workshop also would be helpful to develop financial management skill (Brenda J. Cude, *et al.*, 2006) [3].
2. **Step 2 Training for Working class:** Second level training require for those professional and workers who are engaged in different job and business because ultimately their money channelized in different financial instrument so awareness and training of those people is pre-requisite for efficient and sound financial market. For creating efficient financial market financial education is one of important pillar on which basis efficient market could be build. Financial education change behavior towards investment and saving and it also help individuals to assess their abilities to take right decision for right product (Lusardi, 2008) [10].
3. **Centralized Call Center:** To provide proper financial counseling there should be a centralized toll free call center where an investor could take information of all financial product at one place and this service should be under supervision of regulatory body rather than any service provider company (Rutledge, 2009) [11]. This would be helpful to reduce financial fraud etc. centralized call center there should be also centralized complain mechanism more or less this has been implemented but need more effective strategy to improve impact of centralized complain mechanism.
4. **Social Media:** Current digital era social media is working as catalyst for dissemination of information so regulatory body can use this tool to address the mass.

5. Conclusion

Financial literacy play important role to develop any financial market with good financial literacy we could not expect sound

financial market (Jariwala & Sharma, 2011) ^[7]. In different government polices not given focuss on financial inclusion demand side factor which awareness knowledge about financial products they had given focus supply side like reach of branches & creation of different financial products (UNDP 2012) ^[6, 13]. Sound banking service and Financial market could be develop through financial literacy because financial literacy changes the financial behavior of towards financial products (Shockey & Seiling 2004) ^[12]. Financial Awareness and training of financial market in different phases manner are important because target people through different step help to cover wider area in customized way. Financial literacy creates demand of financial products because financial literacy among people creates interest to avail financial product (UNDP 2012) ^[6, 13]. So achieve financial inclusion at satisfactory level financial literacy should be used as important instrument.

6. References

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