



Role of financial literacy in achieving financial inclusion

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Abstract

The inclusive growth of an economy and its residents depends critically on financial literacy. financial inclusion goal begins with financial literacy. As the supply side of financial inclusion, financial literacy can be considered as the demand side. It is regarded as an essential ally for advancing financial inclusion, financial development, and eventually financial stability. Since financial markets have grown more complex and the average person finds it extremely difficult to make educated decisions, it has taken on more relevance in recent years, especially since 2002. The present study focuses on determining the relationship between financial literacy and financial inclusion. The data from 80 respondents were collected to analyse the awareness regarding various financial products and it was found that people who have a strong grasp of financial principles are able to understand money matters and they were aware of various financial products, but a very large number of respondents were unaware about microfinance loan and mobile banking facilities. So, to make wise financial decisions, people must have financial literacy.

Keywords: Financial literacy, financial inclusion, financial products

Introduction

Literacy is defined as "the quality or state of being literate; knowledge of letters; condition in respect to education, the ability to read and write" by the *Oxford English Dictionary (1952)*. The OECD describes it as "a combination of financial awareness, knowledge, skills, attitude and behaviors necessary to make sound financial decisions and ultimately achieve individual financial wellbeing" (Organisation for Economic Cooperation and Development).

As part of a larger goal of financial inclusion, the government has occasionally adopted a number of steps to raise the degree of financial literacy in India. To promote financial education, the Reserve Bank of India (RBI) has developed a "5-Core Actions" strategy, which, among other things, calls for the creation of pertinent content for both adults and schoolchildren, community involvement, and cooperation amongst diverse stakeholders. The RBI's "National Strategy for Financial Education (NSFE) 2020-2025" has suggested a multi-stakeholder strategy to develop a financially literate and self-reliant India. The strategy paper identifies the five Cs as follows: content, capacity, community, communication, and collaboration. In 2019, the National Centre for Financial Education (NCFE) conducted an All India Financial Inclusion and Financial Literacy Survey, which found that 27.18% of the respondents had met the minimum target score or minimum threshold score for each of the OECD-INFE-recommended financial literacy components, up from 20% in 2013.

Aiming to "spread awareness about basic financial products in order to link new users to the formal financial sector, to educate existing users of financial products and services to make informed decisions, and to ensure consumer protection for all users," India's National Strategy for Financial Education (NSFE), which is based on the OECD's global paradigm, aims to "ensure consumer protection for all users."

Financial mistakes can be avoided and the financial landscape can be better understood and negotiated by people

with a solid understanding of financial principles. On the other hand, those with a lesser level of financial literacy find it difficult to comprehend financial issues and how they could affect their financial security. Customers who struggle to understand fundamental financial concepts like interest compounding and financial risk diversification frequently pay higher transaction costs and accumulate unsustainable debt.

The objective of the Study

1. To study the awareness level of individuals towards various financial products.
2. To find out the most preferred investment instruments
3. To examine the relationship between financial literacy and financial inclusion.

Review of literature

Various research on financial inclusion and literacy has been carried out periodically both globally and in India. According to *Kou et al. (2021)*, access to capital is a problem; as a result, numerous national and international organizations see financial literacy as one of the key components of financial inclusion. According to *Camisón-haba, Antonio, & Almendros (2018)*, in order for a consumer or investor to make satisfactory financial decisions, they must acquire a number of abilities and use a particular set of behaviors. Financial education is typically the term most frequently used to describe the action taken to fulfill these requirements, the end outcome or the degree of instruction attained. *Sarma (2016)* expanded his investigation by examining the links between various aspects of financial inclusion and economic expansion, demonstrating the existence of a two-way causal link between access to banking services and the expansion of the economy.

The percentage of adults who have bank accounts is one frequent indicator of financial inclusion, according to *Thorat's (2007)* article. Based on the data that is currently available, it was determined that overall in India, 59% of the

adult population has a bank account, leaving 41% of the population without one. In contrast to metropolitan regions, where coverage is 60%, rural areas have a coverage rate of 39%. Given that only 14% of adults have loan accounts, the level of exclusion from the credit markets is significantly greater.

Research Methodology

Data collection and analysis

For the purpose of the study, both primary as well as secondary data were used to know awareness regarding various financial products. Primary data was collected from 80 individuals by using convenience sampling methods. For the analysis of data, a cross tab was used to know the awareness regarding various products or availing various banking services.

Analysis and Interpretation

The respondents were asked questions related to various financial products whether they heard of or were aware of that product or not and also check the awareness regarding

various schemes and initiatives taken by the government. Following is the analysis of various products and awareness amongst individual as follow-

List of questions asked whether they were aware or not. (Out of a total of 80)

Table 1

S.no	Questions	Yes	No
1	Holding bank account /type	67	13
2	Aware of saving account	52	28
3	Aware of fixed deposit	68	12
4	Pension fund	54	26
5	Investment fund	27	53
6	Bank loan against security	57	23
7	Unsecured loan	49	31
8	Insurance policy	71	9
9	Mobile banking facility	29	55
10	Microfinance loan	31	49
11	Aware of credit card	43	37
12	Aware of debit card	49	31
13	Use of post office for saving	73	7

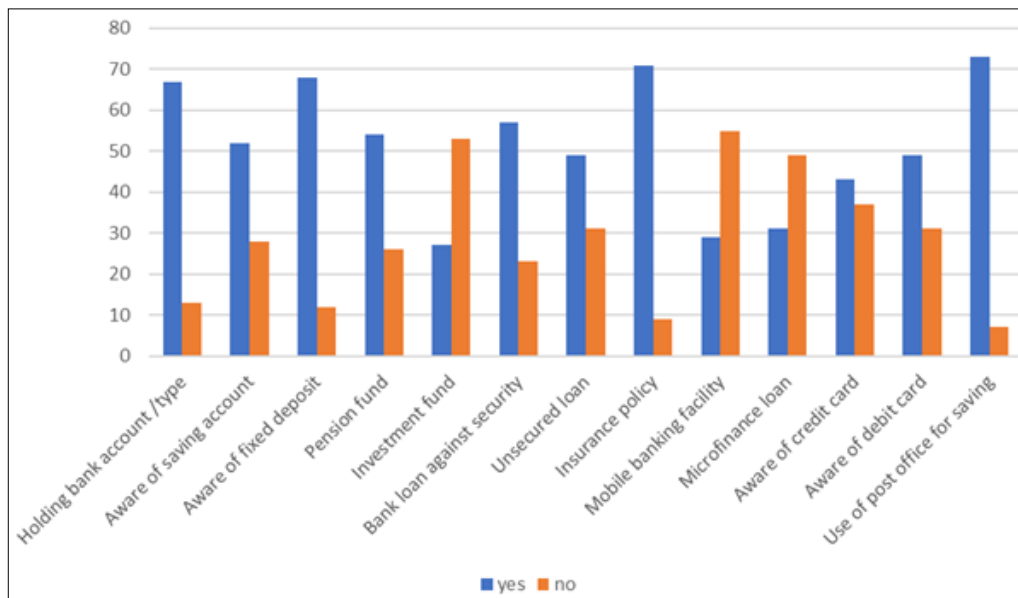


Fig 1

It was found that out of 80 respondents, only 67 respondents were hold bank accounts, and 52 respondents aware of saving accounts. Coming to fixed deposit the majority of responses were aware of it. While in the case of investment funds, they don't know much about it very few of them are aware of investment funds. 54 respondents hold pension fund accounts (refer to table). 57 of the respondents were about bank loans against security and 49 respondents were aware of unsecured loans in the case of insurance policy good number of responses were received but in the case of mobile banking facilities and microfinance loans response was poor, they were not aware of such kind of facility. In the case of debit cards, 49 respondents were aware and for credit cards 43 respondents were aware. But in the case of post office saving 73 respondents were aware.

Conclusion and suggestion

The study comes to the conclusion that the first step toward financial inclusion is financial literacy. The study supports Babych *et al.*'s (2018) ^[5] findings, which explain a positive association between financial literacy and an individual's

education level and income level. The current study has determined that people are possessing and using products like mobile banking, microfinance loans, investment funds, and unsecured loans since they are aware of the benefits of having a savings account and an ATM card. The report acknowledges that a lack of financial literacy is not the only factor in financial product holdings. Low or insufficient income is the main factor supporting not owning these things.

Currently, India has 180 billion accounts. However, according to the Global Findex database of the World Bank, there have been no transactions on 48% of bank accounts in the past year. We must always keep in mind that regular usage, not access, is the best indicator of financial inclusion. People must be literate enough to comprehend the fundamentals of money management in order to successfully use financial services. Financial literacy is the name for this ability.

To be able to make wise financial decisions, people must have financial literacy. Because they are not properly

informed, people purchase insurance plans without doing enough planning and abandon them in the middle because they cannot afford the premium. The impoverished may suffer more damage if insurance firms aggressively market their products without properly evaluating the stability of the customers' revenue streams for maintaining their policies.

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