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Financial Literacy Status in the Villages of Kanyakumari District in Tamil Nadu State, India

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ABSTRACT

Financial literacy is knowledge about finance. The importance of financial education has improved in recent years due to developments in financial markets as well as demographic, economic and policy changes in India. Financial literacy is an important adjunct for the promotion of financial inclusion and ultimately financial stability. The main objective of the study is to assess the financial literacy in the villages of Kanyakumari district. The study conducted in ten villages belonging to three blocks of Kanyakumari district. Financial literacy relates to educational status, income and frequency of operation (transaction) in positive sense. The overall satisfaction level of financial services of the customers lies in educating rural people clearly about the financial services available, how to use them and its benefits is inevitable. This would improve their usage and satisfaction level on these financial services.

Keywords: Financial inclusion, financial literacy, financial services, customer satisfaction

The drastic developments in the financial sector have led to more number of innovative financial products. Empowering the consumers to better understand and manage financial risk, market complexities and choices available in financial sector ultimately helps in ensuring financial stability. In India, the need for financial literacy is getting greater because of the low level of literacy and large section of population, which remains out of the formal financial set up. The objective of inclusive growth without financial inclusion is not attainable. (Nash, 2012). Inclusive finance, however, does not mean that everyone who is eligible uses each of these services, but they should be in a position to use them if they so desired.

The range of financial services includes the entire gamut of financial products, cheque accounts, savings products, loans, debit cards, credit cards, insurance and health care services, payment services, remittance and money transfer, financial advisory services and counseling. Thus, financial literacy is the ability to grow, monitor and effectively use financial resources to enhance the well-being and economic security of oneself, one's family and one's business. Recognizing the need for financial literacy, many countries both developed and developing, have launched financial education or financial literacy programmes for its people. Among 25 countries in the Asia Pacific Middle Eastern region, India ranks 20th in the MasterCard Worldwide Financial Literacy Index for the first half of 2012. The banking sector during 2011-12, handled 4.52 crores small borrowing accounts, nearly 45% of them are in the rural areas. Even after establishment of co-operative banks, nationalization of major commercial banks and creation of regional rural banks, only 59% of adult population in the country had bank accounts. It is 39% in case of rural adults to have access to accounts and 14 out of 100 adults have loan account on all India bases. Out of 203 million households in the country, 147 million are in rural areas of which 89 million are farm households. In that, 51.4% of farm households have no access to formal or informal source of credit, while 73% have no access to formal source of credit.

In November 2005, a basic banking "No-frills" account with low or nil minimum balance and charges made available by banks to expand the outreach to vast section of the population. The outcome of the effort reflected in the increase of 6 million new (no-frills) bank accounts opened between March 2006 and March 2007 in 45,000 rural and semi-urban branches. Under financial inclusion programme (Swabhiman) banks had provided banking services in 74,000 habitations with 2000 or more population. Government has planned to implement Direct Cash Transfer of subsidy and other government payments to beneficiaries account directly. The endeavor is to ensure that there is at least one bank branch / Business Correspondent Agent (BCA) in every Gram Panchayat. According to National Payment Corporation of India (NPCI) the total number of ATMs in the country was 1,04,500, till October 2012. As on December 2012, 31.44 crore debit cards were in use, which is expected to grow @ 18% p.a. whereas the credit cards available were 1.88 crores and the growth was only 7% per annum. E-banking, insurance and credit cards are other latest addition to financial services. RBI's new branch licensing policy (February 2013) is another step for financial inclusion under which 25% of their branches should be in places with a population less than 10,000 (rural areas).

In Tamil Nadu, Kanyakumari and Trichy Districts selected for disbursement of old age pension through banks on a pilot basis during June 2011. All the MGNREGS payments are being made through banks in Tamil Nadu. The total number of households under MGNREGS are 58,16,369 (2011-12) of which 83% are women. The banking sector in Tamil Nadu has added as many as 57.16 lakh no-frills accounts since the initiation of financial inclusion programmes. In Tamil Nadu 67.23% of households, have bank accounts.

Research Elaborations

RBI launched the National Pilot Project on Financial inclusion during June 2007, in three districts of Tamilnadu. Those were Kanyakumari district (majority of the people belong to minorities), Tanjore district (more Scheduled Caste population) and Nilgiris district (more of Scheduled Tribes). Later, the RBI's Village adoption programme also included villages of Kanyakumari district. The study region chosen was Kanyakumari district in this context. The overall objective of the study is to assess the financial literacy in the villages of the district. Out of nine blocks in the district, by random sampling method three blocks were selected viz., Agasteeswaram, Rajakkamangalam and Thovalai for the study. By following proportionate random sampling method, ten villages selected from the three blocks. In each village, about 20 respondents selected randomly and thus 200 respondents formed the total sample of the study. Information collected was pertaining to the financial year 2012-2013.

The collected information subjected to simple percentage analysis for finding the major sources of information and usage of financial services. Based on the number of services that the sample respondents were using, they were categorized as follows; if the respondents did not use any of the service they were considered under 'no usage' category; if the respondents used 1-2 services they were considered as 'basic users'; followed by users of 3-5 services as 'active user'. The respondents who used 6-8 services considered as 'advanced users' and those who used nine and more services were considered as 'intensive users'. *(National Survey Results- Belarus (2012)).*

Multifunctional logit model employed to see the degree and direction of influence of each factor in the awareness towards financial services as follows

$$P(Y) = \frac{1}{1+e^{-y}}$$

Where Y = 1, and Y=0, if they are aware and unaware respectively. It was assumed that Y is linearly related to the independent variables shown below:

$$\ln(P/1\text{-}P) = \alpha 1+\beta_1 x_1+\beta_2 x_2+\beta_3 x_3+\beta_4 x_4+\beta_5 x_5+\beta_6 x_6+\beta_7 x_7+\beta_8 x_8+\beta_9 x_9+\beta_{10} x_{10}+e$$

Where P is the probability of availing the services

$\mathbf{X_1}$ = Age of the respondent.

$\mathbf{X_2}$ = Gender of the respondent, it was considered as X_2= 0, if Male and X_2=1, if female.

$\mathbf{X_3}$ = Educational status of the respondent.

X_4 = Banking Experience.

X_5 =Income earned by the respondent. Annual family income of the respondents is taken

X_6 = Social participation. For the purpose of analysis, it was considered as X_2= 0, if socially inactive and X_2=1, if socially active.

X_7 = Number of bank accounts held by the respondent.

X_8 = Occupational status of the respondents.

X_9 = Usage frequency.

$\beta_1, \beta_2, \beta_3, \beta_4 \ldots\ldots\ldots \beta_{9}$ = Co-efficients, e = Error term.

Results

The sample respondents get information about various banking services by different sources. The details about these information sources interpreted to get meaningful information. The results revealed that majority of respondents; nearly 95 percent of them came to know about the financial services offered by the banks from their friends, relatives and colleagues followed by 36.50 per cent, who gathered information from the extension workers. The bank staffs (19.00 %) and Business Correspondents (11.50 %) played an important role in educating the people about the various financial services. Financial Literacy Credit Counseling Center (FLCCC) was a source of information to only 7.50 per cent of the respondents and it was much lower than expected. The FLCCCs established mainly, with the objective to educate the rural population on the financial services. Until now, attainability of the intended purpose of FLCCCs was poor and there is a need for improvement in their functioning.

The awareness level of the rural respondents varies with villages. The villages with Business Correspondent (BC) facility relatively had more number of sample respondents (62.14 %) aware of the banking services, than the villages without the BC facility. The usage of various financial services offered by banks categorized based on the number of services that the respondents were using. The usage of financial or banking services was more in the villages with BC facility, than in the villages without BCs. In the villages without BC facility majority (more than 43.00 %) of the respondents were basic and active users, whereas in the villages with BCs there were more number of active (57.86%) and advanced users (27.15 %).

Linear Probability Model (LPM - Logit Functional Model) was employed to study the relationship between the dependent variable "awareness" and

Table 1 Factors Influencing Financial Literacy Awareness

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
Age	.014	.017	.681	1	.409	1.014
Gender	.873	.534	2.677	1	.102	2.395
Education	.198	.065	9.376	1	.002**	1.219**
Banking Experience	-.011	.027	.183	1	.669	.989
Income	.012	.004	9.326	1	.002**	1.012**
Participation	-1.798	.549	10.742	1	.001**	.166**
No of account	.327	.555	.347	1	.556	1.387
Occupation	-1.671	1.237	1.823	1	.177	.188
Frequency			3.502	6	.744	
Frequency(1)	-.418	1.287	.106	1	.745	.658
Frequency(2)	20.407	2.577E4	.000	1	.999	7.292E8
Frequency(3)	21.750	4.019E4	.000	1	1.000	2.792E9
Frequency(4)	1.378	.756	3.324	1	.068*	3.965*
Frequency(5)	.257	.499	.265	1	.607	1.293
Frequency(6)	.158	.428	.137	1	.712	1.172
Constant	-3.938	1.205	10.688	1	.001	.019

* Significant at 10% level and ** significant at 1 % level

independent variables namely: age, gender, educational status, occupational status, income, banking experience, social participation of the respondent, number of accounts held, frequency of banking operation by the individual and average per capita monthly income. The variables "gender", "occupation", "social participation" and "frequency of operation" treated as categorical. The values of the coefficients and their statistical significance are presented in Table 1

Financial literacy among the sample respondents found positively related to their educational status, income and frequency of operation. As shown by the Exp (B) statistics, the probability of awareness about financial services increased by 1.22 times with every unit increase in education. The probability of awareness about services increased with every unit increase in frequency of usage of financial services by the respondents. Relative to monthly users and rare users, respondents who are using the financial services at fortnightly intervals are 3.97 times more likely to be aware of financial services. By contrast, transition to a higher social participation decreases the probability of awareness of financial services by 0.17 times. Each transition to a higher income bracket increases the probability of financial literacy by 1.01 times.

Conclusion

The major sources of information on financial services among the customers of rural villages found to be 'friends / relatives / colleagues', 'business correspondent', 'bank staff', 'extension workers', and FLCCC. The functioning of the FLCCC has to improve in providing financial counseling services to the rural people through face-to-face interaction. Banks need to train their frontline staff in such a manner that their communication regarding services will enhance the usage and awareness of financial services in the minds of the customers. Banks could take up proper extension efforts on financial literacy programme through special camps to educate the rural people by volunteers, SHGs and NGOs. They could also use the village, social and community festivals and gatherings to increase the awareness and advantages of being connected with the formal financial sector. There is a need to appoint more number of BCs in every village and at the same time to increase their functions like collection of deposits, recover loan remittance (part payment), etc. Since in villages most rural customers are MGNREGA workers, Smart Card Banking (SCB) need to be encouraged. The bank could extend its branches and even the Ultra Small Branches in needful rural areas for easy access by the rural people. Banks need to provide more user friendly approach through their staff and also simplify the lengthy procedures and documents requirements so that the rural poor would approach the bank without any hesitation and increase the financial literacy altogether.

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