International Journal of Applied Research 2019; 5(2): 15-18

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2019; 5(2): 15-18
www.allresearchjournal.com
Received: 09-12-2018
Accepted: 12-01-2019

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Financial literacy and financial inclusion: A review of earlier studies

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Abstract
Financial Exclusion may be attributed to factors like Demand side factors (Financial Literacy) & Supply side factors (Financial Inclusion). By imparting financial knowledge awareness level regarding financial products and services can be enhanced and more people can use formal financial services. This Paper focuses on review of earlier studies on financial literacy and financial inclusion. The current study will cover literature on financial literacy, financial literacy & its determinants and link between financial literacy & financial inclusion. Recent studies confirmed the low level of financial literacy among single female, people living in rural areas, among people having low education qualification, low income and working in government organisation. From recent studies it can be suggested that government have to take necessary measures to further financial education to different sectors of the society, especially people living in rural areas and those with low financial literacy level. Material on financial literacy can be included in the course curriculum of schools & colleges. It was found that financial literacy had second positive correlation with financial inclusion after culture. Some studies show low level of correlation between financial literacy & financial inclusion i.e. high literacy level but low level of financial service usage.

Keywords: Financial literacy, financial inclusion & determinants of financial literacy

1. Introduction
Financial literacy & Financial Inclusion have been important policy of GOI from decades both plays an important role in reducing poverty & enhance economic growth of developing and least developed countries. Emergence of technology and innovation in banking sector has resulted in increasing the volume and growth of financial inclusion in various sectors of the society, but due to lack of financial knowledge and skills among the poor and venerable section of the society they are not able to access the financial services provided by the banks. Therefore, financial education is important aspect in solving demand side problem of financial inclusion and to increase demand for formal financial services. With the increase in complexity of financial products and markets, surging cost of living demand individuals to be more financially literate and to be responsible in managing personal finance.
OECD (2005), defines financial literacy as the combination of consumers'/investors' understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being. Financial literacy will empower the consumer and enhance their ability to make informed judgement & to take effective decisions regarding the use and management of money (Jana, Sinha & Gupta 2017) [9]. There is a lack of knowledge among Indians about the basic principles of money and house hold finance such as Interest, Inflation & role of portfolio investment (Agarwalla, Barua, Jacob and Varma 2013). 35% of Indians are financially literate (VISA 2012) and India was among the least financially literate countries.
The centre for financial inclusion (2013) also proposed integration of financial capability as one of the pillars of financial inclusion programs. The OECD also recommended increasing the role of financial education in furthering the financial inclusion in developing and least developed countries (OECD 2013). Through branchless banking services and with the help of Business Correspondents illiterate people in rural areas can withdraw or remit money without filling up forms or challans (Nagendra and Shenoy 2011).

Banks should organise an awareness camps & financial literacy program for rural people through mass communication so that people became aware of various financial services & products (Shastri 2014). Thus, this Paper focuses on review of earlier studies on level of financial literacy and financial inclusion. The current study includes the link between financial literacy its determinants and financial literacy & financial inclusion.

2. Objective of the paper

2.1 To review earlier studies on financial literacy & financial inclusion.
2.2 To summarize recent studies on financial literacy and its determinants.
2.3 To summarize the recent studies on link between financial literacy & financial inclusion.

3. Methodology

Present study is based on secondary data collected from various research articles, journals & working papers. Review of literature was divided into three sub sections: financial literacy, financial literacy & its determinants and financial literacy & financial inclusion.

4. Review of literature

The following section reviews the prior literature on financial inclusion & financial literacy. This section is divided into three subsections: Financial Literacy level, financial literacy and its determinants and Link between financial literacy and financial inclusion.

4.1 Financial literacy level

According to The Organisation for Economic Co-operation and Development (OECD) Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decision and ultimately achieve individual well-being.
Bhavna Sharma (2016) [1] carried out a survey to find out a financial literacy level among people of Greater Noida. It was found that out of 50 respondents 94% are aware of mutual funds but only 62% invest money in mutual funds. Most of the respondents have heard about SIP but do not understand them. 73% of respondents invest money in mutual funds through SIP. PPF is a widely known instrument as compared to tax free bond and 68% of the respondents invest in it. 60% respondents have knowledge about the tax treatment of interest received on fixed and recurring deposit. The financial literacy can be easily improved through inclusion of relevant material on financial literacy in the general education program of schools and colleges.
Akshita Arora (2016) [2] conducts a survey to assess the financial literacy level among the working women in the state of Rajasthan. Financial Literacy level has measured by taking into account three parameters: financial knowledge, attitude and behaviour. It was found that very few women got rank among the highly financially knowledgeable women. Women living in cities and towns are more knowledgeable than women living in rural areas. The results show that many women have positive behaviour about money and finance matters, reflecting their prudence, discipline and alertness while dealing with household finances. They are cautious about saving money for future despite of being from middle income-group and their education level.
Kamal Gupta & Jatinder Kaur (2014) [3] in their study has made an attempt to access the financial literacy among micro entrepreneurs in district Kangra. Structured questionnaire will be designed as an instrument to evaluate the level of financial literacy. Descriptive and inferential analysis will be used to examine the extent of awareness regarding financial education among micro entrepreneurs. The result indicated that micro entrepreneurs in district Kangra possess low financial skills. These are revealed by deficient record keeping practices, poor cash management, improper saving habits, and less awareness regarding different financial products and other credit loan facilities. Authorities have to organize a financial literacy programme so that micro entrepreneurs can adopt formal financial practices.
Nufazil Altaf (2014) [4] in his paper measure the level of financial literacy among the management graduates of the central university of Kashmir. A structured questionnaire with a five point balanced Likert scale for measuring level of awareness of financial literacy among management graduates has been used to collect data from sample of 100 respondents. The questionnaire has been divided into four parts first one measuring the perception of respondents towards definitions and theories of financial literacy; second part measuring the ability of respondents to manage finance; third part measuring the various constraints of financial literacy while as final and the fourth part measuring the respondents views regarding the ways to improve financial literacy. It was observed that students, on overall, don’t have a satisfactory level of knowledge and skills in financial literacy. As for definitions and theories of financial literacy, the students disagree with almost all the statements, in which individuals use a combination of skills, resources and contextual knowledge to process information and make decisions. Respondents believe that financial and time constraints, lack of personal interest, lack of sources of information, failures of financial institutions to present information in a manner to attract interest and lack of government initiatives to promote financial awareness among the public are the most important constraints for financial literacy.

4.2 Financial literacy & its determinants

Debabrata, Abhijit & Arindam (2017) in their study of financial literacy in the unorganised sector in west Bengal found male respondents (86%) are more acquainted with different financial terms than the female respondents (14%). Financial literacy level gets affected by demographic and socio-economic factors such as education, income, age, etc. Education level has a moderate impact on awareness level of people about different types of regulatory bodies like RBI, SEBI & IRDA. There is a strong association between awareness about different types of forms available in bank and education level. Respondents in higher income bracket are more aware about future saving plans as compare to respondents having low income. It can be concluded that as level of literacy increased, understanding level about calculation of interest also increases.
Neha Ramnani (2016) [8] has made an exploratory/descriptive study on financial literacy & financial education across India. Study is based on

secondary data collected from literature survey, books, journals & various websites. From the study it was evaluated that in India the level of financial literacy is very low. There are various determinants like gender, age, education, income, geographical location and employment which affect financial literacy. There is a wide gender gap in terms of financial literacy in India as 73% of men and 80% of women are not financially literate. Level of financial literacy is directly impacted by age factor. Financial literacy among the youths generally ranges from moderate to high levels and it declines as the age increases. There is a direct relationship between education level & financial literacy; individuals with high education level are more likely to assess financial risks and take informed decisions to meet their financial goals.

Madhulata (2016) [7] has analysed the financial literacy using a sample survey of 200 respondents (100 male & 100 female) in rural areas of Sonepat district of Haryana. Sample was selected using convenient and purposive sampling technique. Crosstab correlation & chi-square test was applied to assess the association between various socio demographic factor & financial literacy. The results showed that gender, income, nature of work and education level have association with basic financial literacy but there is no association between age and literacy. Study results reveal that overall financial literacy is very low many respondents were not even able to calculate simple interest.

Puneet Bhushan & Yajulu Medury (2013) [6] examined financial literacy & its determinants using ANOVA & descriptive statistics in three districts of Himachal Pradesh namely Shimla, Solan & Kangra. Questionnaire survey of 516 salaried employees was conducted. Multistage sampling technique has been used to select representative sample from sub divisions of three districts of Himachal Pradesh. The results indicated that there is a significant difference between male & female, male is more financially literate than females. ANOVA analysis revealed that there is no association between age and financial literacy level of salaried employees. There is a positive relation between education, income & financial literacy. Income of financially literate employees is more than financially illiterate employees. Similarly employees working in non-government organisations in urban areas are more financially literate.

4.3 Financial Literacy & Financial Inclusion

Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. “Financial inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services” (World Bank). Financial Exclusion may be attributed to factors like Demand side factors (Financial Literacy) & Supply side factors (Financial Inclusion). India ranks second in the world in terms of financially excluded households after china (Anupama, Sumita 2013). Financial inclusion enables improved and better sustainable economic and social development of the country. It helps in the empowerment of the underprivileged, poor and women of the society with the mission of making them self-sufficient and well informed to take better financial decisions.

Divya Joseph (2014) [10] in her study on financial inclusion & financial literacy has surveyed 100 respondents to examine their awareness level, banking habits and reason for opting public sector or private sector banks in Piravom Panchayat of Ernakulam district. The study revealed that 97% respondents have bank account, ATM facility and security is the prime reason behind depositing money in banks, only 5% respondents give importance to image of the bank before investing money. People living in rural areas still prefer to choose services of public sector banks over and above private sector banks. It was found that people still prefer old investment instruments like LIC, Chit funds & Post office savings; people are very reluctant in investing money in modern instruments like mutual funds.

Puneet Bhushan (2014) [12] survey of salaried individual in Himachal Pradesh showed respondents in high financial literacy group have higher awareness level for all financial products except for post office savings. T test reveals that there is a statistical difference in awareness level for bank fixed deposits, savings account, public provident fund, mutual funds, stock market investments and bonds. Respondents having low financial literacy do not invest much in those financial products which are comparatively more risky and can give higher returns. Based on the analysis author suggested that government & policy makers should take necessary steps to improve financial literacy among population.

Anirban Ghatak, (2013) [11] carried out a survey of 500 respondents to find a dependency between demand side factors of inclusion & independent variables like Inflation, Occupation, Literacy, Resistance to change, Physical Assets, Culture and Society, Accessibility, Transaction Costs, Technology, Fear, Dominance of a group, Readiness to take efforts, Saving, Cost of Living and Income. Using KMO and Bartlett’s tests, the study concludes that Accessibility, Culture, Assets, Literacy and Income are the most significant factors which will influence the demand for financial inclusion. These factors account for 63.26% of the total variance. The correlation between the independent variables and the dependent variables shows that Accessibility is highly correlated with demand followed by literacy, income & culture; there is a minimum correlation between assets & demand for financial inclusion. Thus it can be concluded that financial literacy had second positive correlation with financial inclusion, accessibility is the most significant factor in raising the demand for financial services.

Mwangi & Evelyne (2012) examined the impact of financial literacy on access to financial services in Kenya using a multinomial logit approach and regression analysis. Study found that financial literacy is low in Kenya. Regression analysis reveals that access to financial services is based on factors such as income levels, distance from banks, age, and marital status, gender, and household size, level of education and not on financial literacy. To increase financial services in the country government should be in the forefront in developing a curriculum on financial education at local, middle and higher learning institutions. Study recommends that more investments be pumped towards financial literacy programs so as to increase its effectiveness. This will help pull more people from the excluded category and the informal strand towards the formal and semi-formal strands.

5. Conclusions & Recommendations

From the review, it can be concluded that rural & married women, entrepreneurs, management graduates have a low level of financial literacy. Women living in urban areas are more alert in managing household finance. People living in urban areas are aware of modern financial products but they don't understand the basic principles of instruments. Few people invest their money in modern instruments life Mutual funds and bonds. Action need to be taken by government, RBI and other authorities to impart financial education to the people living in rural areas especially women to increase their literacy level. Material on financial literacy could be included in the curriculum of school and colleges to improve the knowledge of students.

The current paper identified that there is a link between financial literacy and variable like gender, age, education, income, employment status etc. It is learned that financial literacy level gets affected by demographic and socio-economic factors such as education, income, age, etc. Male respondents are more acquainted with different financial terms than the female respondents. There is an inverse relation between age and financial literacy. It is learned that there is a strong association between education, Income, awareness level & saving habits.

It can also be observed from the review that financial literacy had second positive correlation with financial inclusion. Respondents having low financial literacy do not invest much in risky financial products like shares, mutual funds and bonds. People with moderate literacy prefer to invest money in saving accounts, public provident fund & fixed deposits. Thus there is a need to formulate education policy which focuses on enhancing financial knowledge of people. Programmes & workshops related to financial knowledge & literacy can be organised by government organisations like RBI & SEBI in educational institutes both urban and rural areas to make people aware of different financial services & products, efforts can also be made to motivate people to invest more money in capital market instruments.

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