

Effectiveness Of Financial Literacy Centers On Financial Inclusion- A Study

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ABSTRACT

The present study has focused on the effectiveness of financial literacy centers on the financial inclusion. The study has considered the Medak district of Telangana state as a sample area and collected the primary data through the questionnaire from the respondents, who have opted the central government financial inclusion schemes. The study examined the effectiveness of the FLCs on the financial inclusion with the statistical method of discriminant analysis and found that financial literacy centers effectiveness observed with the factors of Insurance can initiate next revolution of growth. The study observed that direct cash transfer also found to be less effective. The study examined the suggestive measures to improve the financial inclusive with the exploratory factor analysis and the observed that deepening of micro-finance, scalability of banking services and usage of technology will strengthen the financial inclusion.

Keywords: Banking services, Effectiveness, Financial Inclusion, Financial Literacy, Insurance products.

INTRODUCTION:

Financial literacy is described broadly as the ability to be familiar with and understand financial market products, especially rewards and risks, in order to make informed decisions. It refers to the ability to make educated decisions and make good decisions about money use and management. It is regarded as a necessary condition for functioning effectively in modern society. Trends in retirement income programmes, job habits, and demography indicate that its value will only rise in the coming years. Raising financial literacy promotes social inclusion and improves community well-being.

There is a need for financial literacy effectiveness in both developed and developing

countries. Because of the increasing number and complexity of financial items, the ongoing change in responsibility for providing social security from governments and financial institutions to individuals, and the growing value of individual retirement planning, it is important that financial literacy be offered to everyone in developing countries. Financial literacy can be viewed as the first step toward poverty alleviation and growth in developing countries.

Not only can financial literacy impact the quality of life that individuals can afford, but it can also affect the credibility and quality of markets. It will provide individuals with simple budgeting resources, assist them in cultivating the discipline to save, and thereby ensure that they can live a dignified life after retirement. In turn, financially informed consumers will support the economy by promoting real competition,

pushing service providers to innovate and increase their levels of performance.

Financial literacy and financial inclusion have long been critical policy objectives in India. Inclusive finance, also known as financial inclusion, is the provision of financial services at fair rates to broad parts of the low-income population while offering equal opportunities. According to the Government of India (2008), financial inclusion is the process of ensuring disadvantaged groups, such as poorer sections and low-income groups, have access to financial services and timely and sufficient credit when required at an affordable cost. In India, the need for financial literacy is even greater due to low levels of literacy and a large segment of the

population that remains outside of the formal financial system, especially in rural areas.

Financial Literacy Centers play an important role in promoting the agenda of financial inclusion by offering awareness and literacy on a range of financial services and items. With the implementation of RBI guidelines in 2012, even lead banks are now required to create FLCs at the district level, wherever possible. With a total of 1,181 FLCs currently operating in the country, the literacy initiative via indoor and outdoor operation can be time-consuming, particularly given that each such centre has a coverage base of 3 lakhs¹ to train.

REVIEW OF LITERATURE:

Charan Singh (2014): According to the report, despite various steps undertaken by the Reserve Bank of India and the Government of India, satisfactory results are yet to be seen. The research categorizes the difficulties as customer-related and technological in nature. Along with financial illiteracy, mobile number registration and pin number generation are major deterrents for customers. The findings state that Financial inclusion's performance is also hindered by low penetration of financial services and inefficiency of business correspondents.

Joseph J. and Varghese T. (2014): The author attempted to assess the current state of financial inclusion on the growth of the Indian economy in their report by evaluating five state bank groups and five private sector banks. The variables considered for the analysis were bank growth rate in terms of number of bank branches, offsite and onsite ATM, credit card and debit card use, and so on. According to the study's findings, debit card use increased dramatically during the study period, and banks concentrated more on semi-urban and rural areas. The study also discovered that, despite the country's inclusive banking initiatives, the number of people who have access to the products and services provided by the banking system is very small.

Elisa Luciano (2014): This paper examines the demand for life insurance among Italian households as a result of the SHIW 2012, and proposes policy changes that could increase it. We take into account both participation and investment numbers. The findings indicate that financial inclusion plays a critical role in shaping life insurance demand. The researcher uses stock and home ownership to proxy financial market inclusion; author then examines its relationship with financial literacy, using parental managerial skills as an instrument. The core findings illustrate the significance of financial inclusion as the primary driver of insurance demand.

Shaik H. (2015): studied the recent measures of RBI on Financial Inclusion plan of banks for the inclusive growth process of the economy. The Reserve Bank also used the FIP's to measure the performance of banks under their FI initiatives. Annual review meetings were held with CMDs/CEOs of banks as a follow up measure. The findings of the study state Reserve Bank also tried to create conducive environment to extend door step banking facilities in all the unbanked villages in a phased out manner.

SethySusanta Kumar (2016): In this report, a Financial Inclusion Index was proposed to calculate the level of financial inclusion across economies. It was discovered that India is rated as having high financial inclusion on the demand

side and low financial inclusion on the supply side. It was suggested that the Government of India and the Reserve Bank of India implement appropriate policy initiatives to strengthen the supply side component of financial inclusion.

Stephen Aro-Gordon (2016): The paper examines the progress made in Nigeria's financial inclusion push, with a focus on the country's National Financial Inclusion Strategy (NFIS), which was launched in 2012. Thus, with only a marginal improvement in national financial inclusion reported during the period, organized NFIS strategy implementation remains critical, particularly in the areas of maintaining social peace and security, coupled with robust mobile money account penetration and grassroots financial literacy. These results are explored in terms of their implications for long-term financial sector reforms, human capital growth, and future studies.

Peterson K Ozili (2020): This article presents several theories of financial inclusion. This study illustrates that financial inclusion ideas and observations can be organized into hypotheses to promote constructive debates in the literature. Researchers, researchers, and practitioners will all benefit from financial inclusion theories. The resulting theoretical insights are beneficial to the problem-solving phase in the global financial inclusion agenda.

OBJECTIVE OF THE STUDY

1. To know the effectiveness level of Financial Literacy Centers on Financial Inclusion.
2. To determine the Measuring factors to strengthen the Financial Inclusion in Medak district.

HYPOTHESES OF THE STUDY

The study has framed the following hypothesis based on the objectives. They are,

H0: There is no effectiveness level of financial Inclusion through financial products.

RESEARCH METHODOLOGY:

The present study is based on primary data from the respondents the study has applied the convenience sampling method term in the sample size the studies collected the data from the small-scalarural people from Medak District of Telangana.State who have opted financial inclusion through the Likert scale structure questionnaire the study applied the following statistical method for the examination of framed objectives.

- **Discriminant Analysis:** The study has applied the discriminant analysis of statistical technique to identify the effectiveness level of financial inclusion. The discriminant score will extract the core factors which will reflect the effectiveness of financial inclusion.
- **Exploratory Factor analysis:** The study has applied the EFA to identify the measuring factors to strengthen the financial inclusion. The EFA will extract the high loading factors, which will reflect the strength of financial inclusion.

TABULATION OF DATA ANALYSIS

1. To know the effectiveness level of insurance policy holders on Financial Inclusion.

The study applied the Wilks lambda test to know the model fitness to apply the discriminant analysis to know the effectiveness level of financial inclusion in Medak.

Table-1
Wilks Lambda Model Fitness Test for Financial inclusion

Parameters	Wilks' Lambda	F	df1	df2	Sig.
Rural residents will have access to banking facilities.	.624	17.437	4	116	.000
Reduction in cash economy	.978	34.190	4	116	.000

To increase capital formation in Medak	.897	44.083	4	116	.000
Direct cash transfers to beneficiary account	.704	28.527	4	116	.000
It can initiate next revolution of growth	.854	23.349	4	116	.000

Source: Primary Data

The above table depicts the Wilks lambda test result on the parameters relating the five segments. The f values are observed to more than the table value for all the statements. The effectiveness to increase capital formation in Medak (44.083), The effectiveness of reduction in cash economy (34.190), The effectiveness of Direct cash transfers to beneficiary account with respect to financial inclusion is at (28.527), The

effectiveness 23.349 and 17.437 respectively for the statements “It can initiate next revolution of growth, Rural residents will have access to banking facilities” these values are tend to more than the table value (5.6580). The p values are found to be significant and the coefficient values are fallen near to 1, which indicates the model is fit to apply the discriminant analysis.

Table-2
Effectiveness level of Financial Inclusion in Medak

	Function
Rural residents will have access to banking facilities.	0.772
Reduction in cash economy	0.823
To increase capital formation in the Medak District	0.83
Direct cash transfers to beneficiary account	0.655
It can initiate next revolution of growth	0.981

Source: Primary Data

The study explains about the Effectiveness levels with respect to Financial inclusion in Medak District. The results determines that the highest Effectiveness level is for the statement “It can initiate next revolution of growth” with 0.981 discriminant score meaning that it enables with Financial Infrastructure which results in Financial Inclusion. The next statement with the higher score is “To increase capital formation in the Medak District” with the score 0.83

witnessing that it inculcates habit to save which boost the economy. The effectiveness levels of statement “Reduction in cash economy” discriminant score is tend to be 0.823. The discriminatory score for “Rural residents will have access to banking facilities, Direct cash transfers to beneficiary account” is 0.772 and 0.655 respectively, implying that the respondents have the access to banking facilities and direct cash transfers which in turn results in

the effectiveness of Financial inclusion. The statement “It can initiate next revolution of growth” with 0.981 discriminant score meaning that it enables with Financial Infrastructure which results in boosting Financial Inclusion in Medak District.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett’s test of Sphericity are applied to identify sample adequacy of data that had considered in study which defines the Measures to strengthening financial inclusion by the Government.

2. To determine the Measuring factors to strengthen the Financial Inclusion.

Table -3:

Sample Adequacy test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.811
Bartlett's Test of Sphericity	Approx. Chi-Square	391.828
	Df	28
	Sig.	.000

Source: Primary Data

KMO test calculated values is 0.811 that is above the recommend level (0.70) which signifies adequate of data sampling. Further, Bartlett’s test of sphericity indicates that chi

square calculated value is greater than critical value that concluded significant of data. Thereby confirming that, Critical problems considered in the study are valid for Factor Analysis.

Table – 4 Communalities

	Initial	Extraction
Deepening the outreach of the microfinance programme	1.000	.693
Increase in scalability for Bank services.	1.000	.647
Increase in Technology adoption among people	1.000	.686
Making sure each person has basic documents to avail financial benefits.	1.000	.461
Giving Financial service without looking at person income and savings	1.000	.508
Increasing the demand of financial services by schemes like SGSY	1.000	.747

Role of government in providing Schemes and subsidiaries.	1.000	.704
Marketing about financial products	1.000	.573
Extraction Method: Principal Component Analysis.		

Source: Primary Data

Table illustrates the contribution of factors considered in the analysis defines the Measures to strengthening financial inclusion respondents in doing business. Result had shown that each measurement contributed above 50% that means each of them are used to formulate loaded factors. Among, “Increasing the demand of financial services by schemes like SGSY” under the head of the Measures to strengthening financial inclusion had

contribute high with 74.7% followed by “Role of government in providing Schemes and subsidiaries” (70.4%)” Whereas “Deepening the outreach of the microfinance program” (69.3%), under the head other problems and remaining contributed according above 50%. Whereas, making sure each person has basic documents to avail financial benefits is low with 46.1%.

Table – 5
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.983	49.790	49.790	3.983	49.790	49.790
2	1.036	12.950	62.741	1.036	12.950	62.741
3	.882	11.023	73.763			
4	.653	8.160	81.923			
5	.511	6.389	88.312			
6	.404	5.050	93.362			
7	.310	3.871	97.233			
8	.221	2.767	100.000			
Extraction Method: Principal Component Analysis.						

Source: Primary Data

Table illustrates the variance analysis extracted from principal component analysis. Result signifies, out of eight components, two components had been extracted. It indicates that component one consists of Eigen value with 3.983 which is able to explain variance has

49.7%. Similarly component 2, Eigen value seems to be greater than '1' that are able to explain with respective variance of 12.9 Therefore overall contributed by these factors is 62.741%.

Table – 6: Suggestive Measures

Deepening the outreach of the microfinance program	.536
Increase in scalability for Bank services.	.741
Increase in Technology adoption among people	.741
Making sure each person has basic documents to avail financial benefits.	.673
Giving Financial service without looking at person income and savings	.658
Increasing the demand of financial services by schemes like SGSY	.798
Role of government in providing Schemes and subsidiaries.	.771
Marketing about financial products	.693

Source: Primary Data

Table illustrates the principal component analysis used to extract high loaded factor regarding Measures to strengthening financial inclusion by the Government.

Under the head Measures to strengthening financial inclusion, Increasing the demand of financial services by schemes like SGSY, Role of government in providing Schemes and subsidiaries, increase in scalability for Bank and Increase in Technology adoption among people are the Measures that has been loaded high with their respective factor score as 0.798, 0.771 and 0.741 that means these Four factor are the core to increase the financial inclusion strength. While, remaining high loaded factors are scored accordingly the loaded components which does

have least preference in strengthening is deepening the outreach of the microfinance program with 0.536.

FINDINGS OF THE STUDY

1. The study examined the effectiveness of insurance policy holders on the financial inclusion. The discriminant function stated the higher effectiveness through the "Insurance can initiate next revolution of growth"(0.981). It can be stated that growth of insurance will fuel the growth of other financial segments usage, which in turn strengthen the sustainable economy.
2. The study found with the discriminate function "direct cash transfer to beneficiary

account” is having low discriminate score of 0.655, which reflects the lower effectiveness. Therefore, it stated that direct cash transfer is not that effective for the financial inclusion in the Medak district.

3. The study found that there is lack of demand in financial services (0.798) and government providing Schemes and subsidiaries (0.771) in the Medak district since it is the backward region, these are the factors which have more strength to increase financial inclusion when compared to other factors.
4. The lowest factor that creating the problem to strengthen the financial inclusion are “Giving Financial service without looking at person income and savings” (0.658) and deepening the outreach of the microfinance program (0.536) meaning that they are lowest preference to increase the strength of financial inclusion in Medak district.

CONCLUSION

The study emphasized on Measures to strengthening and effectiveness of financial inclusion in Medak district. The study has framed two objectives and tested the hypotheses. The study looks at the measures to take to strengthen the financial inclusion and the effectiveness level on financial inclusion. The study emphasizes that all the statements taken are significant and highly shows effectiveness in financial inclusion. It is observed strengthening of financial inclusion in medak district is weak in two factors i.e., “Giving Financial service without looking at person income and savings” and “Deepening the outreach of the microfinance program” as respondents were poor and they have not enough money and for getting loan banks are looking their income and

- ies of Financial Inclusion”, SSRN Electronic Journal, pp- 1 to 22.

paying capacity this should be removed and respondents should be given financial service without looking their income and savings in order to increase the financial inclusion in medak district and also people need to get awareness in different financial programs.

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