Financial Literacy, Financial Attitude: Pedictors of Financial Inclusion

[*]M. Stella[1]& Dr. T. Ramachandran[2]
[1]Research Scholar, College of Management, SRM Institute of Science and Technology, Tamil Nadu, India
Orcid: https://orcid.org/0000-0003-3833-1860
[2]Professor, College of Management, SRM Institute of Science and Technology, Tamil Nadu, India
Orcid: https://orcid.org/0000-0002-5633-0303

ABSTRACT

Financial inclusion (FI) is the process of clinch access to financial services. It also provides affordable, timely and appropriate credit where susceptible groups such as vulnerable groups and low-income groups need it. In diverse countries like India, FI is animportant part of the development process. The collective efforts of government and regulatory agencies (institutions), the financial inclusion has improved in the country. However, FI hasnot reached the poorest and has many bottlenecks and challenges like lack of financial literacy, unawareness of financial services, digital illiteracy which need immediate attention(Hasan et al., 2021). Financial literacy is a predetermine factors that influence financial inclusion. The importance of financial literacy has increased significantly over the past several years among educators, community groups, businesses, government agencies and policy makers (Hogarth et al., 2002). Financial attitude is a state of mind and opinion of a person about finance. This study focuses on the demand side perspective with the purpose of examining the influence of financial literacy and financial attitude towards the financial inclusion among women (especially working women). The results show the positive relationship between financial attitude and financial literacy towards financial inclusion.

Keywords: Financial inclusion, financial literacy, financial attitude, measurement model, structural model and Smart PLS

INTRODUCTION

Financial inclusion has been defined as "the process of ensuring access to financial services, timely and adequate credit for vulnerable groups in society at an affordable cost" (Committee on Financial Inclusion - Chairman:Dr C Rangarajan, RBI, 2008). The concept of financial inclusion was first introduced in Indiaby the Reserve Bank of India in 2005. FI refers to have an account in formal financial institution which allows individual to save,to avail insurance, borrow cash and to use payment services (Allen et al., 2016). The inability of individuals to access precise financial services has been recognized as a significant hurdle to socio-economic growth in developing countries (Demirguc and Klapper, 2012). The economic rationale of increasing financial inclusion is to primarily ensure that economically excluded groups become part of the formal banking system by providing secure financial services i.e., saving, credit, insurance and remittances (BoU, 2013). National Bank for Agriculture and Rural Development (NABARD) and Reserve Bank of India (RBI) has taken the initiative to promote financial inclusion in rural areas. The aim of financial inclusion is to provide many underprivileged people in the country with easy access to financial services.

As per census 2011, only 58.7% of households are availing banking services in rural areas as compared with previous census 2001 (35.5%), it has been increased significantly in India (Department of financial services, GoI). Financial literacy is predominant factors for inclusion as it can empower the poor people to value financial products and build financial stability. Financial literacy is the propensity to make informed decision regarding the financial product (Servon and Kaestner, 2008). "A combination of awareness, knowledge, skill attitude and behaviour necessary to make sound financial decision and ultimately achieve individual financial wellbeing" (OECD,2011). Financial attitude refers to an individual's perspective, opinion and assessment of financial matters. Financial attitudes also determine how someone spends, hoards and wastes money (Furnham,1984). Financial decisions are more or less based on state of mind, feelings, attitude and knowledge without conscious use of clear reasons (Slovic, P1972). Financially astute individuals are more likely to view a plan positively (Mindra and Moya, 2017). Financial inclusion is an essential parameter for economy growth in a country.

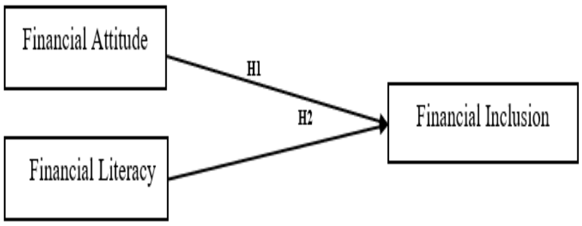
REVIEW OF LITERATURE

The aim of financial inclusion (FI) is to bring the financial excluded population into an organized formal financial system in order to make the public access financial services i.e., savings, payments, loans and insurance (Hannig and Jansen, 2010).Financial literacy is the capability to make conversant judgements and make effective decisions about the utilization and money management (Bhushan and Meduri, 2013). Financial literacy carries aids to individuals and their families as there is expanding evidence that individual with a high level of financial education is better at managing their money (Allgood and Walstad, 2016). Kadoya et al. (2018) indicate that financially literate individuals are capable to make sound economic decisions about hoarding assets, earning income and reducing financial anxiety in their old age. Financial attitude is a state of cognizance, opinions and decisions about finance (klontz et al. 2011). The research reveals that almost half of the working youths showed a high financial attitude towards their financial planning and had a low tendency toward consumption. In order to observe the financial literacy among young employees, retired people and students in India a sample of 3000 people were examined (Agarwalla et al. 2015). Financial literacy is regardless of the level of financial development of the countries. Lack of financial literacy among the people in US reveals less educated people, women, African, Americans and Hispanics had low level of financial literacy. The results of the study also stated that unawareness andilliteracy of finance caused in lack of retirement plans (Lusardi, 2008). The financial literacy status of Australians has been reported by the ASIC, 2011 (Australian Securities and Investments Commission). The findings of the survey showed that socio-demographic characteristics such as age, education, gender and income influenced people's interest in knowledge, attitude, beliefs, trust and financial concepts. However, as the complexity and unfamiliarity of financial topics increased, people's self-confidence and knowledge declined. It turns out that people are familiar with and confident in everyday financial concepts, but feel uncomfortable with complex concepts, e.g., investment and retirement savings. Yoshino et al., (2015) conducted a study that financial literacy scores in Asian countries are low, according to a survey commissioned by the Asian Development Bank Institute and also highlighted the large results of financial literacy at the monetary improvement of a country, the researchers emphasised the want for extra concerted coverage efforts for financial literacy on the country wide level. According to Choudhary, K., & Kamboj, S. (2017)the results indicated that people have low levels of literacy, despite high levels of financial knowledge and behaviour. The overall low level of financial literacy is primarily due to the low scores of respondents' financial attitudes.

Based on literature, objectives are as follows:

- To investigate the factors influencing the financial inclusion among working women in Chennai.

Research Model



Source: Mindra, R., & Moya, M. (2017)

Research hypotheses

H1: There is a significant relationship between financial attitude and financial inclusion.
H2: There is a significant relationship between financial literacy and financial inclusion.

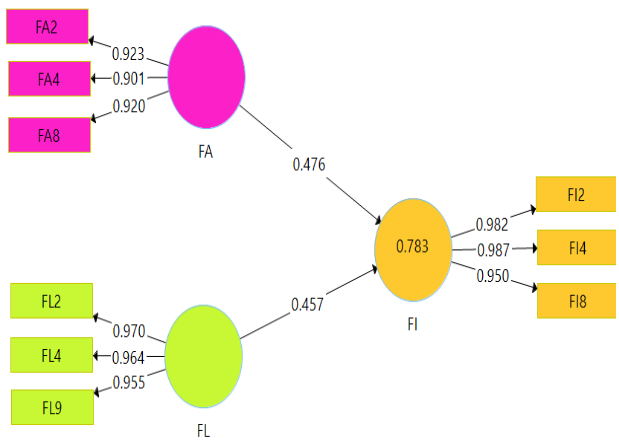


Fig.1Assessment of Measurement Model.Items factors loadings and value of R2 isexamined before hypothesis testing.

METHODOLOGY

To examine the influence of financial attitude and financial literacy towards financial inclusion among working women, Chennai city, India. A descriptive research design has been utilized and method of convenience sampling has been used. The data was collected through well-structured questionnaire from 385 working women according to Cochran's formula. In this study structured scale was adopted to ensure the reliability and validity of the questionnaire from OECD (2013), Shockey (2002),Potrichet al., (2015) and Mindra, R., & Moya, M. (2017).

RESULTS AND DISCUSSION

The structural and measurement model has been analysed with the help of Smart PLS 3 (Ringle, et al., 2015). To assess the measurement model the internal consistency, convergent validity, cronbach's alpha, AVE and discriminant validity has been examined.

Measurement Model

Table 1 Internal Consistency, Convergent Validity, Composite reliability and AVE

Construct	Indicators	Loadings	Cronbach's alpha	Composite Reliability	AVE
Financial Attitude	FA2	0.923	0.903	0.939	0.836
	FA4	0.901			
	FA8	0.920			
Financial literacy	FL2	0.970	0.972	0.982	0.947
	FL4	0.964			
	FL9	0.955			
Financial Inclusion	FL2	0.982	0.961	0.975	0.928
	FL4	0.987			
	FL8	0.950			

From the above table 1, it is inferred that factor loading of the construct have more than 0.9. convergent validity at least more than 0.5 to attain the satisfactory level (Hair et al., 2010; Rahman et al., 2015). George and Mallery (2003) have indicated in their study the Cronbach's alpha more than 0.7 are excellent. The analysis shows that the value of Cronbach's alpha is 0.9 which is excellent. Composite reliability should be 0.7 or above and AVE should be more than or equal to 0.5 (Hair & Lukas, 2014: Fornell&Larcker, 1981). In the study,it is revealed from the analysis, both composite reliability and AVEare adequate level.

Structural Model

Structural model helps to assess the direct effect between independent and dependent variables using Smart PLS.

Table 2 Discriminant Validity

	FA	FI	FL
FA	0.915		
FI	0.841	0.973	
FL	0.798	0.837	0.963

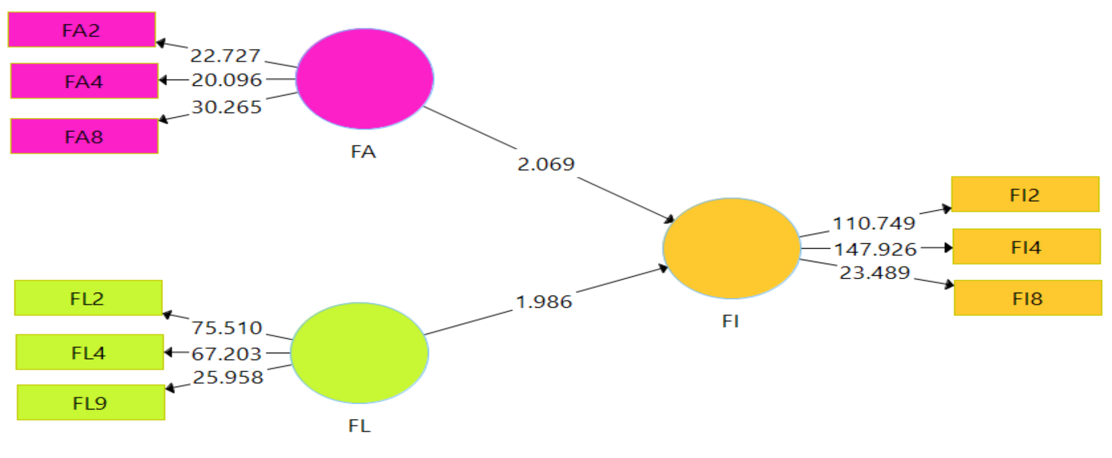


Fig.2 Assessment of Structural Model with direct effect, path coefficient and t value

Thestudy has two hypothesis H1 and H2 (Fig. 2). The hypothesis was established by considering the t value and path coefficient. R^2(R-Squared)is 78.3% (0.783) were examined. According to Hu &Bentler(1998) the SRMR values less than 0.08 are considered a good fit and NFI values above 0.9 typically represent adequatemodel fit (Bentler&Bonett, 1980). SRMR and NFI values are 0.069 and 0.906, therefore the model is fit.

Table 3 Results of Structural Model Assessment: Direct effect and Decision

Hypothesis	Relationship	Original Sample	Sample Mean	Standard Deviation	t Statistics	p values	Decision
H_1	FA->FI	0.476	0.418	0.230	2.069	0.039	Accepted
H_2	FL->FI	0.457	0.517	0.230	1.986	0.047	Accepted

The study has two hypotheses as shown in Fig. 2 and Table 3. The hypotheses (H1, H2) were (supported) accepted as the t-value were greater than 1.96. Therefore, it is inferred that financial attitude and financial literacy (significance) were influencing (p value is 0.039 and 0.047) the financial inclusion among working women.

Table 4 f -squared value (f^2): Effect size

Construct	f -squared	Effect size (f^2)
Financial Attitude	0.377	Strong
Financial Literacy	0.349	Strong

According to Cohen (1988), indicated that f square (f^2) values of 0.02 are small, 0.15 is moderate and 0.35 is strong. From the Table 4, it is inferred that the effect size was 0.377 and 0.349 is indicates both constructs have strong effect size.

CONCLUSION

Financial attitude and financial literacy are two major determinants of financial inclusion for the developing countries like India. Financial exclusion is comparatively high in India due to lack of knowledge and weak understanding in financial concepts. Financial inclusion is necessary for financial stability of a country.The government,financial regulators,financial institutions and policy makers should promote the financial knowledge among vulnerable groups like women, low-income groups and self-help groups.A well-structured formal financial system willreduce informal finance and financial exclusion. This in turn eradicates the poverty level of a country. This study discloses the influence of financial attitude and financial literacy towards financial inclusion among working women. The access of formal financial system helps not only to improve the economic sustainability of a country but it also leads to women empowerment.

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