A STUDY ON FINANCIAL INCLUSION AND FINANCIAL LITERACY OF UNBANKED AND UNDERBANKED POPULATION IN THOOTHUKUDI CITY

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ABSTRACT:

According to recent estimates by the World Bank, around 1.7 billion adults worldwide remain unbanked, with the majority residing in developing countries. These individuals often rely on cash transactions and informal financial channels to meet their financial needs thus trapping such individuals in a state of economic marginalization. This study focusses on examining the extent of financial exclusion and understanding the impediments that prevent people from accessing financial services. Both primary and secondary data were used for the study. It is clear from the study that financial inclusion and literacy are not only the moral obligations of a government but also strategic investments in the future of the economy. Bridging the divide between the unbanked and the formal banking system is essential for building a more inclusive, resilient and prosperous society.

KEYWORDS: Financial inclusion, financial literacy, unbanked, underbanked, inclusive growth.

INTRODUCTION:

In today's rapidly evolving global economy the significance of accessing financial services has never been more pronounced, yet a large number of individuals around the world find themselves excluded from the formal banking system, living on the fringes of economic participation. The consequences of financial exclusion are more profound. The unbanked population is more vulnerable to exploitation, fraud and economic shocks thus perpetuating the cycles of poverty and inequality.

DEFINITIONS:

Financial Inclusion

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups in particular, at an affordable cost, in a fair and transparent manner, by regulated, mainstream institutional players.

Financial Literacy

Financial literacy is about disseminating knowledge and information about the products and services offered by banks and other institutions. The objective is to make people aware of risks and rewards so that they can make informed choices.

Unbanked Population

The unbanked are adults who do not have their own bank accounts. They are considered to be outside the mainstream of the banking system. Although this problem can originate from lack of access to financial institutions, others consciously avoid them.

Underbanked Population

Underbanked population refers to households with only one bank account. Such people despite having a bank account, rely on alternative financial services such as money orders, money lenders etc. for their basic financial needs.

STATEMENT OF THE PROBLEM:

- Despite the tremendous growth of India's financial sector, a substantial portion of the population remains unbanked and underbanked, lacking access to even the basic financial services. This is not only true for people in remote areas but it is also applicable to the urban masses as well
- Even among those who have access to financial services, there is a widespread lack of financial knowledge to make informed financial decisions

OBJECTIVES:

- To know the extent of financial literacy among unbanked and underbanked population
- To examine the financial behaviour and attitude of unbanked and underbanked population
- To identify the barriers preventing the unbanked and underbanked population from accessing financial products/services

RESEARCH METHODOLOGY:

Sampling Design	Convenient sampling method
Period of Study	January 2024 – March 2024
Type of data	Primary and secondary data
Number of respondents	120 respondents
Test for analysis	Percentage analysis, Likert's scaling method, Garett ranking method, Chi-Square test

LIMITATIONS OF THE STUDY:

- The study does not comprehensively integrate insights from other disciplines like psychology, sociology etc. thus limiting a holistic understanding of financial inclusion and literacy
- The findings of the study are based on the data collected through a self-developed questionnaire, therefore there may be scope for measuring financial inclusion and literacy by other means

RESULTS AND DISCUSSIONS:

TABLE 1

Number of Bank Accounts Held

Number of Accounts	No. of Respondents	Percentage
None	15	13%
1	65	54%
2	7	6%
More than 2	33	27%
Total	120	100%

Source: Primary data

INFERENCE:

From the above table it is inferred that 13% of the households have no bank account. 54% have 1 bank account, 6% have 2 bank accounts and 27% have more than 2 bank accounts. Thus, most of them i.e. 54% have only 1 bank account.

TABLE 2

Reason for Not Opening a Bank Account

Reasons	No. of Respondents	Percentage
Illiteracy	12	10%
Lack of Regular Income	35	29%
Non-Availability of Branches in the Locality	16	13%
Minimum Balance Requirement	41	34%
Impersonal Customer Service	14	12%
Don't Find Banks to be Safe	2	2%
Total	120	100%

Source: Primary data

INFERENCE:

The above table infers that 10% of the respondents state illiteracy as their reason for not having a bank account, 29% due to lack of regular income, 13% due to non-availability of branches in the locality, 34% due to minimum balance requirements, 12% due to impersonal customer service and 2% of the respondents don't find banks to be safe. Thus, most of them i.e. 34% state that minimum balance requirement is the reason for not having a bank account.

TABLE 3

Attitude towards Financial Services/Financial Matters

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total score	%	Rank
I find it satisfying to spend money rather than save it for long term	165	128	18	66	16	393	3.27	VII
I set long term financial goals and strive to achieve them	110	308	54	6	-	478	3.98	I
I keep a close watch on my financial	180	168	114	6	1	469	3.9	II

affairs								
Before buying a product, I carefully consider whether I can afford it	175	196	51	34	2	458	3.81	IV
Income stability impacts my willingness to use financial products.	200	208	45	2	12	467	3.89	III
Employment status impacts my ability to access financial products	130	144	90	52	2	418	3.48	V
Collateral requirements impact my ability to borrow from financial institutions	135	148	66	64	2	415	3.45	VI
I do not have enough money for daily basic expenses.	85	92	96	64	16	353	2.94	VIII

Source: Primary data

INFERENCE:

The above table using Likert scaling technique represents the attitude of the respondents towards financial services/matters. The ranking table clearly reveals that, the “I set long term financial goals and strive to achieve them” has the highest score of 3.98 and therefore it is ranked first, followed by “I keep a close watch on my financial affairs, Income stability impacts my willingness to use financial products, Before buying a product I carefully consider whether I can afford it, Employment status impacts my ability to access financial products, Collateral requirements impact my ability to borrow from financial institutions, I find it satisfying to spend money rather than save it for long term and I do not have enough money for daily basic expenses”.

Thus, “I set long term financial goals and strive to achieve them” was ranked first.

TABLE 4

Ranking the Prevalence of Financial Knowledge

Concept	R1	R2	R3	R4	R5	R6
Ability to do mathematical division	40	23	24	15	7	11
Understanding time value of money	13	15	16	48	14	14
Understanding interest component on loan	10	16	42	29	19	4
Concept of inflation	21	43	27	11	14	4
Understanding risk-return relationship	18	15	8	13	51	15
Diversification of investments	22	7	4	5	13	69

Rank	100(Rij-0.5)/Nij	Percent position	Garret Rank
1	100(1-0.5)/6	8	77
2	100(2-0.5)/6	25	63
3	100(3-0.5)/6	42	54
4	100(4-0.5)/6	58	46
5	100(5-0.5)/6	75	37
6	100(6-0.5)/6	92	22

Concept	1		2	3	4	5	6	Total	Mean score	Rank
Ability to do mathematical division	3080		1449	1296	690	259	242	7016	58.46	I
Understanding time value of money	1001		945	864	2208	518	308	5844	48.7	IV
Understanding interest component on loan	770		1008	2268	1334	703	88	6171	51.42	III
Concept of inflation	1617		2709	1458	506	518	88	6896	57.46	II
Understanding risk-return relationship	1386		945	432	598	1887	330	5578	46.48	V
Diversification of investments	1694		441	216	230	481	1518	4580	38.16	VI

Total	Mean score	Rank
7016	58.46	I
5844	48.7	IV
6171	51.42	III
6896	57.46	II
5578	46.48	V
4580	38.16	VI

INFERENCE:

The above table shows the ranking of prevalence of financial knowledge on a given scale. It is observed that the ability to do mathematical division was ranked first, concept of inflation was ranked second, understanding the interest component on loan was ranked third, understanding time value of money was ranked fourth, understanding risk-return relationship was ranked fifth and diversification of investments was ranked sixth. Thus, ability to do mathematical division was ranked first.

TABLE 5

Testing the Relationship between Monthly Income and Payment of Bills on Time

Monthly Income	Payment of Bills on Time			Row Total
	Always	Sometimes	Never	
Less than Rs.2500	8	7	1	15
Rs.2501 – Rs.5000	8	6	0	14
Rs.5001 – Rs.10000	4	7	9	20
Above Rs.10000	47	18	5	70
Column Total	67	38	15	120

Rows and Columns	O	E	O – E	$(O-E)^2$	$(O-E)^2/E$
R_1C_1	8	8.38	-0.38	0.14	0.017
R_2C_1	8	7.82	0.18	0.03	0.004
R_3C_1	4	11.17	-7.17	51.41	4.6
R_4C_1	47	39.08	7.92	62.73	1.6
R_1C_2	7	4.75	2.25	5.06	1.06
R_2C_2	6	4.43	1.57	2.46	0.55
R_3C_2	7	6.33	0.67	0.45	0.07
R_4C_2	18	22.17	-4.17	17.39	0.78
R_1C_3	1	1.88	-0.88	0.77	0.41
R_2C_3	0	1.75	-1.75	3.06	1.75
R_3C_3	9	2.5	6.5	42.25	16.9
R_4C_3	5	8.75	-3.75	14.06	1.61
$\Sigma(O-E)^2/E$					29.351

DEGREE OF FREEDOM = (r-1) x (c-1)

= (4-1) x (3-1)

= 3 x 2

= 6

At 5% level of significance, the table value for 6 degrees of freedom is 12.592. The calculated value is 29.351 which is greater than the table value. Thus, the null hypothesis (H_0) is rejected. It is concluded that, there is a significant relationship between monthly income and payment of bills on time.

FINDINGS:

- Most of the respondents found the procedure for opening a bank account to be moderate
- Major proportion of the respondents have the habit of preparing a budget, setting up an emergency fund and investing their money
- Majority of the respondents prepare informal financial networks instead of the banking system
- Most of the respondents think that opening up more branches will help financial institutions to be more inclusive

SUGGESTIONS:

To the government and financial institutions:

- Financial education should begin at a very early age. It should be incorporated into the school curriculum
- Government should draft policies to allow students to open bank accounts and operate them on their own (Unlike the current scheme which requires the natural guardian to operate the accounts of a minor). If banks find it difficult for accommodating children, post offices can provide such services
- Banks usually designate their security guards/peons with the task of helping customers and answering their queries. It is advisable to appoint a proficient and patient person solely for interacting with customers
- Banks/financial institutions can train local volunteers and community leaders to conduct workshops and offer support to community members
- Government can offer incentives and rewards to financial institutions that actively participate in promoting financial inclusion and literacy among the masses

To the individuals:

- Every individual should undertake an assessment of one's own financial requirements and aspirations. They should set surmountable financial goals and strive to achieve them
- Individuals must be vigilant against fraud and exploitation. They should be able to identify the prevalent scams and manipulative strategies. Cultivating a routine of regular news watching is an effortless route to financial awareness

CONCLUSION:

The concepts of financial inclusion and financial literacy transcends mere access to bank accounts. It is about providing the tools and opportunities necessary for individuals to take control of their financial destinies and strengthen their overall resilience. Achieving widespread financial inclusion and literacy requires a concerted effort from all the stakeholders-government, financial institutions, society and individuals themselves.

This study highlights the importance of bringing formal financial services to every citizen who wants them and maximising such access specially for the impoverished. In conclusion, the country should work towards inclusive governance in order to achieve inclusive growth, for inclusive growth alone will raise the standards for sustainable living.

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