



Financial Literacy Among Rural Masses in India

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Abstract

Financial literacy is the ability to understand finance. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finances. Financial literacy is mainly used in connection with personal finance matters. It often entails the knowledge of properly making decisions pertaining to certain personal finance areas like real estate, insurance, investing, saving, tax planning and retirement and involves intimate knowledge of financial concepts like compound interest, financial planning, the mechanics of a credit card, advantageous savings methods, consumer rights, time value of money, etc.

The author framed the following research questions to access the financial literacy of rural masses in India. What are the socio-economic conditions of the rural masses and the correlation of the income, expenditure and savings pattern? What are the savings modes and investment avenues and its awareness among the rural masses? What are the various factors that determine the current savings/investment patterns of the rural masses? How could we analyze the investment behaviour of the rural masses based on the risk patterns and necessity? What are the perceptions of the rural investors towards the availability of modern financial services available to them in their region?

On the basis of the observations made from the analysis on account of savings and investment practices among Indian households, socio-economic status, components of income and expenditures, level of awareness, factors influencing investment behaviour and perception towards the financial service availability suggestions were offered. To create awareness among the rural investors about the innovative products so that the financial literacy can be improved.

Key words: *Financial literacy – Rural investor – Socio Economic status – Investment behaviour – Investment Practice – Financial Service.*

INTRODUCTION

Financial literacy is the ability to understand finance. More specifically, it refers to the set of skills and knowledge that allows an individual to make informed and effective decisions through their understanding of finances. Financial literacy is mainly used in connection with personal finance matters. It often entails the knowledge of properly making decisions pertaining to certain personal finance areas like real estate, insurance, investing, saving, tax planning and retirement and involves intimate knowledge of financial concepts like compound interest, financial planning, the



mechanics of a credit card, advantageous savings methods, consumer rights, time value of money, etc.

Financial education is increasingly important, and not just for investors. It is becoming essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education and ensure an income when the people retire.

Of course people have always been responsible for managing their own finances on a day to day basis – spend on a holiday or save for new furniture; how much to put aside for a child's education or to set them up in life – but recent developments have made financial education and awareness increasingly important for financial well-being.

Now a days consumers are not just choosing between interest rates on two different bank loans or savings plans, but are rather being offered a variety of complex financial instruments for borrowing and saving, with a large range of options. At the same time, the responsibility and risk for financial decisions that will have a major impact on an individual's future life, notably pensions are being shifted increasingly to workers and away from government and employers. As life expectancy is increasing, the pension question is particularly important as individuals will be enjoying longer periods of retirement.

Individuals will not be able to choose the right savings or investments for themselves, and may be at risk of fraud, if they are not financially literate. But if individuals do become financially educated, they will be more likely to save and to challenge financial service providers to develop products that truly respond to their needs, and that should have positive effects on both investment levels and economic growth.

From this point of view the author framed the following research questions to access the financial literacy of rural masses in India.

1. What are the socio-economic conditions of the rural masses and the correlation of the income, expenditure and savings pattern?
2. What are the savings modes and investment avenues and its awareness among the rural masses?
3. What are the various factors that determine the current savings/investment patterns of the rural masses?
4. How could we analyze the investment behaviour of the rural masses based on the risk patterns and necessity?



5. What are the perceptions of the rural investors towards the availability of modern financial services available to them in their region?

FORMULATED OBJECTIVES AND HYPOTHESIS

The researcher opines that the standard of financial literacy in the Indian retail investor base is one important determinant of the financial behaviour and financial preferences of retail finance customers. However, it has been observed from the reviews of various literature that there has been very little information or understanding of financial literacy as a determining factor in the disposition of household investment pattern in India. Financial literacy is a huge significant issue for financial markets as it both diverts and distorts investment behaviour and the composition and direction of demand for the products of competing financial services awareness level and investment pattern of the rural masses in India. The following objectives were made for the purpose of intensive analysis;

- To draw an insight into the socio-economic condition of the rural masses and to correlate their income, expenditure and savings pattern.
- To analyze rural households' level of awareness towards savings modes and investment avenues.
- To critically evaluate the influences of various factors that determines their current savings/investment.
- To analyse the investment behaviour based on the risk patterns and necessity.
- To analyse the perception of the rural investors towards the availability of modern financial services to them in their region

The authors formulated the following hypothesis for testing the significance of the objectives.

- There exist no association between rural investor level of awareness toward safe/low risk investment, moderate risk investment avenues and their socio-economic status.
- There exists no association between rural investor level of awareness towards high risk investment, traditional investment avenues and their socio-economic status.
- There exists no association between rural investor level of awareness towards emerging investment avenues and their socio-economic status.



- There exists no association between rural investor level of awareness towards non-banking services and their socio-economic status.
- There exists no association between rural investor level of awareness towards technologically improved investment services and their socio-economic status.
- There exists no uniformity in the investors' level of perception towards various factors that influence them in selection of saving/investment medium.
- Investors' perceptions towards feasibility of financial services offered by various agencies in rural areas significantly differ from one to another.

METHODOLOGY APPLIED

Summery statistics (mean and standard deviation), CV and CGR were applied to measure the average and distance variances in household savings components like; currency, bank deposits, investment in shares and debentures, investment in government claim, insurance funds, private provident funds and other means.

Summery statistics (mean and standard deviation) and CV were also applied to infer the rural households' savings and expenditure behaviour.

The regression model was performed to evaluate the influences of household savings and gross domestic saving of the nation. The dependent variable was gross savings and the independent variable was household sector.

The frequency distribution of the variables has helped the researcher to calculate distribution value of the variables tested.

Weighted arithmetic means and Likert's summated scales helped in interpreting the averages on awareness level of the respondents towards various saving/investment medium, factors influencing rural households to save or invest in a particular avenue, and to measure respondents' perception towards feasibility of financial services available in their region.

Non-parametric Chi-square helped the researcher to define the association between rural investors' level of awareness towards various savings and investment avenues and their socio-economic status. This test is also used to measure association between the investment experience of rural masses and their age.

Pearson's correlation was applied to measure the association between rural investors awareness towards various medium of saving and investment avenues.



Reliability analysis and F-test was applied to prove the fact whether investors have similar or differences of opinion towards their perception on the factors that influenced them to choose a saving medium or investment avenues. Investors' perception towards feasibility of financial services offered by various agencies was also tested using this statistical tool. Cronbach's alpha was drawn to measure the association between awareness and various saving/investment avenues.

Rotation factor analysis was applied to depict a simplified datum on the factors influencing rural householders in selection of savings/investment medium.

Kendal's coefficient of concordance test was performed to measure the association between the saving perceptions exhibited by the sample rural household investors.

ANALYSIS AND INTERPRETATION

The author made an empirical analysis of rural investors, level of awareness towards modern savings/investment avenues and their perception towards availability of various financial services among the people who are living in Coimbatore district of Tamilnadu in India. For the purpose, the following analyses were made:

Socio-Economic Status

The socio-economic status of the sample population surveyed has been summarised below,

TABLE 1. Monthly Income and Size of The Family

Monthly income	Size of the family			Total
	2 – 4	5 – 7	Above 5	
Below Rs. 5000	225(11.00)	64(3.10)	6(0.30)	295(14.40)
Rs. 5000 – Rs. 10000	469(22.90)	162(7.90)	12(0.60)	643(31.40)
Rs. 10001 – Rs. 15000	291(14.20)	98(4.80)	11(0.50)	400(19.50)
Rs. 15001 – Rs. 20000	266(13.00)	148(7.20)	6(0.30)	420(20.50)
Above Rs. 20001	166(8.10)	110(5.40)	16(0.80)	292(14.20)
Total	1417(69.10)	582(28.40)	51(2.50)	2050(100)

Source: primary data

From the Table 1 the relationship between monthly income and size of the family is understood. It has been observed that majority of the respondents i.e., 31.40% were earning a monthly income of Rs. 5000 – Rs. 10000, and 69.10% of the respondents were having 2 – 4 members in the family.



SAVINGS AND INVESTMENT PRACTICES AMONG INDIAN HOUSEHOLDS

Table 2 depicts the monthly savings and investment practice of the rural households at Coimbatore District.

TABLE 2. Monthly Savings of The Respondents

SI. No	Monthly Savings	No. of respondents	Percentage
1	0 – 5 %	409	19.95
2	6 – 10%	829	40.44
3	11 – 15%	503	24.54
4	16 – 20%	213	10.39
5	21 – 25%	77	3.76
6	Above 25%	19	0.92
Total		2050	100

Source: Primary data

Out of 2050 respondents, majority of the respondents' (40.44%) monthly savings were found to be between 6 – 10% of their monthly earning. Only few respondents (0.92%) have above 25% of saving from their monthly earning.

COMPONENTS OF HOUSEHOLD INCOME AND EXPENDITURE

The components of household expenditure on monthly income surveyed has been summarised below,

TABLE 3. CONSUMPTION EXPENDITURE ON MONTHLY INCOME

Variables	Mean	SD	CV (%)	Rank
Servant maids	2.050	0.946	46.12	7
Food	2.663	0.902	33.87	1
Rent	1.807	0.870	48.15	8
Entertainment	2.064	0.906	43.90	6
Transportation	2.408	0.959	39.83	2
Medical Expenses	2.546	1.023	40.18	3
Children's Education	2790	1.187	42.54	4
Others	2.632	1.181	44.87	5

Source: Primary data

The consumption pattern of the respondents is depicted in Table 3 from the detailed analysis; it has inferred that food is the primary household expenditure met by the rural masses with the mean score of 2.663. And the rent has secured least rank with highest CV range of 48.15.

LEVEL OF AWARENESS AND FACTORS THAT INFLUENCED INVESTMENT BEHAVIOUR

The following tables has analysed the surveyed respondents' level of awareness regarding savings schemes, and factors which influenced them to save.



TABLE 4. Investor's Level of Awareness on Various Investment Avenue

Variables	Very High	High	Neutral	Low	Very Low	Total	Average mean	Rank
Safe/Low risk investment avenues								
Savings Accounts	925(45.12)	685(33.41)	277(13.51)	101(4.93)	62(3.02)	8460	4.13	1
Bank fixed deposits	478(23.32)	1010(49.27)	307(14.98)	175(8.54)	80(3.90)	7781	3.80	2
Public provident fund	244(11.90)	480(23.41)	768(37.46)	358(17.46)	200(9.76)	6360	3.10	3
National savings certificates	161(7.85)	379(18.49)	714(34.83)	503(24.54)	293(14.29)	5762	2.81	4
Kisan vikas patras	190(9.27)	319(15.56)	564(27.51)	556(27.12)	421(20.54)	5451	2.66	6
Post office savings	424(20.68)	525(25.61)	450(21.95)	371(18.10)	280(13.66)	6592	3.22	7
Government securities	244(11.90)	337(16.44)	484(23.61)	468(22.83)	517(25.22)	5473	2.67	5
Moderate investment avenues								
Mutual Funds	366(17.85)	643(31.37)	397(19.37)	395(19.27)	249(12.15)	6632	3.24	2
Life insurance	487(23.76)	625(30.49)	432(21.07)	282(13.76)	224(10.93)	7019	3.42	1
Debentures	162(7.90)	417(20.34)	540(26.34)	533(26.00)	398(19.41)	5562	2.71	3
Bonds	207(10.10)	394(19.22)	422(20.59)	523(25.51)	504(24.59)	5427	2.65	4
High risk investment avenue								
Equity share market	335(16.34)	517(25.22)	328(16.00)	452(22.05)	418(20.39)	6049	2.95	1
Commodity market	235(11.46)	419(20.44)	465(22.68)	431(21.02)	500(24.39)	5608	2.74	2
Forex market	224(10.93)	401(19.56)	402(19.61)	463(22.59)	560(27.32)	5416	2.64	3
Traditional investment avenues								
Real Estate	562(27.41)	679(33.12)	305(14.88)	271(13.22)	233(11.37)	7216	3.52	2
Gold/Sliver	555(27.07)	682(33.27)	403(19.66)	233(11.37)	177(8.63)	7355	3.59	1
Chit funds	407(19.85)	548(26.73)	520(25.37)	322(15.71)	253(12.34)	6684	3.26	3

Source: primary data

Table 4 explains the level of awareness and factor influencing behaviour. Under the aspect of safe risk investment avenues, the savings accounts, bank fixed deposits, public provident fund, national savings certificate have secured the I, II, III, IV ranks. Under moderate risk investment avenues, the products of life insurance, mutual funds, debentures, bonds have secured the I, II, III, IV ranks with an average score of 3.42, 3.24, 2.71, 2.65 respectively. Under high risk investment avenues, equity share market, commodity market and forex market have secured the I, II, III ranks with



an average mean score of 2.95, 2.74 and 2.64 respectively. Under the traditional investment avenues gold, silver, real estate, and chit funds have secured the I, II, III.

TABLE 5. Factors Influencing Selection of Investment Medium

Variables	Very high	High	Neutral	Low	Very low	Total sum	Average mean	Rank
High liquidity	631(30.78)	706(34.44)	498(24.29)	157(7.66)	58(2.83)	7845	3.83	2
Safety of money	728(35.51)	838(40.88)	323(15.76)	122(5.95)	39(1.90)	8244	4.02	1
Regular returns	429(20.93)	741(36.15)	601(29.32)	209(10.20)	70(3.41)	7400	3.61	3
Higher returns	403(19.66)	596(29.07)	555(27.07)	387(18.88)	109(5.32)	6947	3.39	5
Long term benefits	405(19.76)	599(29.22)	599(29.22)	325(15.85)	122(5.95)	6990	3.41	4
Capital appreciation	292(14.24)	518(25.27)	573(27.95)	505(24.63)	162(7.90)	6423	3.13	6
Tax benefits	282(13.76)	460(22.44)	564(27.51)	465(22.68)	279(13.61)	6151	3.00	8
Prestige value	266(12.98)	492(24.00)	509(24.83)	529(25.80)	254(12.39)	6137	2.99	9
Others	353(17.22)	425(24.00)	505(24.63)	458(22.34)	309(15.07)	6205	3.03	7

Source: primary data

Form the above Table it is exhibits that the safety of money, high liquidity, regular returns, long term benefits, higher returns factors have secured the I, II, III, IV and V ranks with an average mean score of 4.02, 3.83, 3.61, 3.41, and 3.39 respectively.

INVESTMENT BEHAVIOUR

It has drawn an introspective analysis on the investment habits of rural masses in Coimbatore city.

TABLE 6. Priorities of Investment Purpose

Variables	Total sum	Average mean	Rank
Children's Education	17578	8.57	1
Family well being	15616	7.62	2
Wind's marriage	12659	6.18	4
Construction of house	14156	6.91	3
Status and prestige in the society	10058	4.91	6
Aspiration to lead a comfortable life	9978	4.87	7
Health care	12180	5.94	5
Repayment of debts	8830	4.31	8
To meet contingencies	8185	3.99	9
Others	3689	1.80	10

Source: Primary data

It is evident from the Table that children's education is the top most priority of investment by the respondents followed by maintaining family well being, construction of houses, wards marriage, health care, status in society, aspiration to



lead a comfortable life, repayment of debts, to meet contingencies and other general purposes respectively.

VI. PERCEPTION TOWARDS THE FINANCIAL SERVICE AVAILABILITY

The following Table illustrate the level of perception towards the feasibility of financial services in rural areas.

TABLE 7. Level of Perception Towards Feasibility of Financial Services in Rural Masses

Variables	Very good	Good	Moderate	Poor	Very poor	Total	Average mean	Rank
Availability of financial services	365(17.80)	578(28.20)	763(37.22)	249(12.15)	95(4.63)	7019	3.42	1
Availability of information	190(9.27)	683(33.32)	621(30.29)	385(18.78)	171(8.34)	6486	3.16	2
Financial product knowledge	143(6.98)	404(19.71)	673(32.88)	550(26.83)	328(16.00)	5607	2.74	4
Operational conveniences	128(6.24)	397(19.37)	595(29.02)	617(30.10)	313(15.27)	5560	2.71	5
Access to the Non-banking services	156(7.61)	366(17.85)	618(30.15)	508(24.78)	402(19.61)	5516	2.69	6
Access to modern financial transaction	116(5.66)	246(12.15)	524(25.56)	662(32.29)	499(24.34)	4971	2.42	7

Sources: primary data

The above Table exhibits the level of perception towards the feasibilities of financial services in rural areas. It is understood that primarily most of the respondents have stated that the availability of financial services are moderate. Finally, 32.29% of the respondents have expressed that they have poor accessibility to modern financial transactions.

RESULTS AND DISCUSSIONS

The major observations are summarised below,

Socio-Economic Status

It has been observed that majority i.e., 26.30% of the rural household surveyed were aged between 25-30 years and 16.20% of them were male. It has been found that 79.46% of the respondents were married.

It has been observed that out of 2050, 16.60% of the respondents were agriculturists and further it has been observed that 24.40% of the sample population has completed their high school level education.

From the study it has been observed that 35.12% of the respondents have only one earning members in the family. It is evident from the study that 47.41% of the surveyed rural families have two dependents in their family. Further, it has been observed that 41.56% of the respondents were working in villages.



Savings and Investment practices among Indian households

Overall growth of the household savings in terms of currency sector stood by Rs. 885577 crores on an average between 2000-01 to 2009-10. The average household savings with the banks stood at Rs. 390165.50 crores. The non-banking companies deposits on the household sector during 2000-01 to 2009-10 registered at mean value of Rs. 9305.20 crores indicate a negative growth rate of – 10.87 in the household saving in terms of deposits. Household savings in term of debt was valued at mean value of Rs. 6071 crores.

Household savings in private company shares and debentures leaving a standard deviation value of 20564.27. The co-efficient of variation was 83.67% with a compound growth rate of 28.82. Household savings in government securities and small savings stood on an average of Rs. 58,809crores. The average state insurance investment was Rs. 31021crores. The average household contribution to provident fund and pension was recorded at Rs.958758crores during the study period. The average household contribution to other savings/ investment medium was recorded at Rs. 580333crores between 2000-2010.

Components of Household Income and Expenditure

From the study it has been observed that 66% of the respondents were residing in their own houses and 55.37% of the respondents' source of income is their salary. It has been found that 66.10% of the respondents do not have any additional source of income.

It has been observed that 58.34% of the respondents plan a formal budget to meet out their household income and expenditure. From the detailed analysis it has inferred that food is the primary household expenditure for the rural masses. The food has secured first rank with a mean score of 2.663.

From the study it has been cleared that 40.44% of the respondents' monthly savings ranges between 10-15% of their monthly earning. Results of Pearson's correlation indicate a poor correlation between the saving/investment and expenses met by the rural households.

Level of awareness and factors that influenced investment behaviour

From the elaborate data analysis it has been inferred that the rural households in the study region have gained reasonable knowledge on the various savings and investment medium. But it is very ironical to assess that their knowledge is very much limited to the traditionally know savings and investment avenues like bank saving, holding insurance policy, investment in equities gold or in land/building. The sample population's knowledge on the modern and market sophisticated investment avenues is very much limited.



From the data analysis it has been inferred that there exists a positive correlation between savings in bank i.e., in the form of fixed deposits, respondents' awareness towards public provident funds and national saving certificates. Though the association between the other variables is significant, it depicts a very poor correlation between intra-inter variables tested.

It is inferred with the help of Chi-Square test that there exists an association between rural investor level of awareness towards various savings/investment avenues and their socio-economic status.

It has been observed that 29.31% of rural households have gained knowledge about saving/investment avenues through business channels. From the study it has been concluded that safety of money has been recorded as the primary factor that has influenced the rural masses to save, and it has secured first rank with an average score of 4.02.

From the results of reliability test it has been concluded that there exists no uniformity in the investor's level of perception towards various factors that influence them in selection of saving/investment medium.

It has been observed that 40.15% of the respondents give primary importance to the safety of the principal money they invest before selecting savings/investment avenue e.

From the study it has been cleared that 53.56% of the investors prefer to invest in medium term investments which comprises of 1-5 years. It has been observed that 44.39% of the rural investors prefer their investment to grow on an average rate and 35.28% of them wish to create wealth out of their savings and investment.

Investment Behaviour

It has been observed that most of the respondents have to part with their income for the savings and investments for Rs. 1001-3000 every month.

Majority of the respondents have been comfortable with savings in fixed deposits, chits, post office etc. They are observed to more averters than risk takers.

The results of Chi-square test confirm that there exist association between investment experience of rural masses and their age.

It has been found that 48.63% of rural population holds savings accounts that are considered as safe and low risk avenue of holding liquid money. It is inferred that 73.46% respondents have invested in life insurance policies. It has been further observed that majority i.e., 57.07% respondents have taken higher risk in investing in equity share market.



Majority i.e., 53.17% respondents have invested in gold/silver, which are considered as popular traditional investment avenues. It has been inferred that 62.63% respondents have evinced interest in investment in virtual real estate business.

Kendal's coefficient of concordance test was performed to measure the association between the savings perceptions exhibited by the sample rural household investors.

It has been found that the priority of investment purpose by one investor significantly varies from that of the other investors.

Perception towards the financial service availability

It has been understood from the elaborate data that 37.22% of respondents have stated that the availability of financial services in their rural area are moderate in terms.

It has been found out that investors' perceptions towards feasibility of financial services offered by various agencies in rural areas significantly differ from one another.

It has been observed that minimum deposit facilities or no-frill account is a more popular mode of financial inclusion among the rural masses of Tamilnadu in general and in particular to the study region Coimbatore district as per the opinion of 38.14% of the sample population.

SUGGESTIONS OFFERED

On the basis of the results drawn from the analysis on account of savings and investment practices among Indian households, socio-economic status, components of income and expenditures, level of awareness, factors influencing investment behaviour and perception towards the financial service availability the following suggestions were offered.

In India the focus of financial inclusion at present is confined to minimum access to a savings bank account without any additional changes, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account/ saving account on its own, is not regarded as an accurate indicator of financial inclusion. Hence, just opening the NFAs (No Frill Account) can never solve the real purpose of financial inclusion. Although by definition it is just to provide financial services to all section of the society at an affordable cost. But for inclusive growth and upliftment of the population at the bottom of the pyramid, the orientation of banks and the general masses have to be changed. Thus, it is suggested



that along with the financial inclusion, measure for financial literacy of the rural people are essential, to be undertaken by the banks.

Banks should know how to best leverage between communications and technology in ways to engage and empower people in the area of financial literacy. Recognizing that people receive, learn and digest information in different ways, it would be useful to survey all possible avenues of communication to determine the best way of capturing people's attention and interest. The use of technology in the training of trainers could also be explored. Accordingly, the bank managers need to design and innovate a low cost business model suitable for their branch as guided by the RBI.

Proper and suitable training must be given to the various financial intermediaries by financial agencies, who in turn can educate investors to make wise investment decision.

The introduction of new financial products and instruments will be of no use unless the investor is aware of the merits and uses of new and innovative product and instruments. So the banks and financial agencies should create awareness to the rural investors about the new products and instruments.

Personal financial management literacy should be accompanied by financial operational literacy, like account opening procedure, explaining a nomination facility, types of saving accounts and how to avail credit from a bank etc.

Financial education should start at school level for people to be educated as early as possible.

Policy makers and financial agencies need to adopt two strategies in promoting financial literacy programme to make financial inclusion successful and meaningful. One is developing personal financial management skills and the other is developing financial operation skills for availing various financial services.

CONCLUSION

Today's financial world is highly complex when compared with that of a generation ago. Forty years ago, a simple understanding of how to maintain a checking and savings account at local banks and savings institutions may have been sufficient. Now, consumers must be able to differentiate between a wide range of financial products and services, and providers of those products and services. Previous, less-indebted generations may not have needed a comprehensive understanding of such aspects of credit as the impact of compounding interest and the implications of mismanaging credit accounts. Financial education is important to both the security of individuals and the security of nations. To the rural people the



financial literacy is very important to make efficient decision on their finance. As compared to urban people the rural people have low level of awareness on finance matter. Rural masses in India have reasonable knowledge on the various savings and investment medium available in the market. But it is very ironical to assess that their knowledge is very much limited to the traditionally know savings and investment avenues like bank saving, holding insurance policy, investment in equities gold or in land/building. To conclude, the government should literate the rural people financially through the camp, seminars, and conference. Then only the rural masses can make their investment in an efficient manner.