

Assessment of Financial Literacy among the Urban Low Income Groups : A Case Study in the Guwahati City

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Abstract

It has become almost inevitable for a responsible citizen to take part in the formal financial system. Financial Systems play an important role in economic growth. Possessing a basic bank account is the first step into the modern financial system. It is seen across the globe that low income groups of people are generally excluded from the modern financial system. Governments of major countries including India have put emphasis on financial inclusion of the vulnerable section of the society like the poor and low income groups. Besides making banking services accessible, basic functional financial literacy of the vulnerable section of the population is also very important. It is seen that most of studies on various aspects of financial inclusion are rural centric as many of the rural areas are excluded from the formal financial system. But it is seen that due to rapid urbanisation, a sizeable section of the population particularly low income groups in urban areas have also been excluded although proximity to bank branches is not an issue. This research work has sought to assess the basic financial literacy level of urban low income groups in the city of Guwahati and how the level of financial awareness is affecting or influencing important financial decisions taken by them. Total sample size of the study is 520. The study indicates that although rudimentary awareness about the Banking system has been noticeable but that has not got translated into a situation of enhanced participation in the modern financial system. Dependence on informal sector for financial needs is still very high.

Key words: Basic bank account, Financial Inclusion, Informal sector, Modern Financial System

1.0 Introduction

Financial systems play a positive role in economic growth and this aspect has been well covered in Economics literature. Macro level studies suggest that

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under normal circumstances, the degree of financial intermediation is not only positively correlated with growth and employment, but is also generally believed to causally impact growth (Levine, 2005 Pasali 2013). Financial services do have a positive impact on a variety of microeconomic indicators including self employment business activities, household consumption and well being (Bauchet *et al.* 2011, Cull *et al.*, 2014). Well functioning financial systems offer savings, payment, credit, and insurance services etc. as per the needs of the people. There is also conceptual link between development of finance sector and poverty reduction (Rajan Zingales, 1998). Banks are at the core of the financial system. To derive benefits from the financial system, every modern person has to possess at least a minimum level of financial literacy. Financial literacy, in turn, influences the demand for financial services and eventually leads to financial inclusion of the excluded section of the society. Governments across the world are committed to financial inclusion of the hitherto left out population and bring them to the fold of the formal financial system. More inclusive financial systems are likely to benefit the poor and other disadvantaged groups (Demirguc-Kunt Klapper, 2013). Unfortunately, real world financial systems are far from inclusive. Many of the world's poor or low income groups of people have not been able to benefit from financial services due to market failures or policy inadequacies (World Bank, 2014). Financial exclusion is invariably experienced by the poorer member of the society more (Molyneux, 2007). It is a fact that mostly the poor, marginalised and vulnerable section of the population across the world are excluded from the modern financial system.

Former RBI Deputy Governor Dr. K. C. Chakrabarty has given a comprehensive definition of financial inclusion. According to him,

[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 such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by regulated mainstream institutional players.] (RBI, 2013).

Financial Inclusion provides an opportunity for the common people to access various financial products such as deposits, credit, insurance, fund transfer,

pensions etc. at an affordable price. Having a basic bank account could be seen as the first measurable step in financial inclusion.

Until recently, till the World Bank published the first set of Global Financial Inclusion Database (Findex) in 2011, globally very little comparable statistics was available in the user side data like who are the banked/unbanked, if banked how they are availing various financial services, reasons for not availing banking services etc. Global Findex data represents the data for 148 countries which nearly cover around 97% of the world population including that of India. The second set of Global Findex data was published for the year 2014.

While analysing the Findex 2011 data, Kunt and Klapper (2013) found that at the individual level, the data show significant variations across individual characteristics such as income. Around the world wealthier adults tend to make greater use of formal financial services. They found, by taking the developing countries as a group, that the adults in the highest 20 percent of income earners are more than twice as likely to have an account as against those in the lowest 20 per cent. Around 89 percent of adults in high income countries reported that they have an account at a formal financial institution compared to only 24 percent in low income countries. (Kunt and Klapper 2013).

As per Findex data, India showed strong growth in terms of account ownership from 35 percent to 53 percent by adults between 2011 and 2014. The overall growth in account penetration of 18 percentage points is evenly distributed across all groups of individuals, and there was no significant spurt for the low income groups. In 2014, the poorest 40 percent of the individuals had account penetration at 44 percent. For the rural people it was 50 percent. There is no data separately for the urban poor, so as a group they did not get the attention of the World Bank. The urban poor must have been subsumed in perhaps in the poorest 40 percent. So, there is a gap area that necessitates more study of the urban low income groups particularly in countries like India.

Besides the Findex data, the Planning Commission report prepared by the committee headed by Raghuram Rajan (Planning Commission, 2008) has referred to a survey carried out by the Invest India Market Solutions (IIMS) in 2006-07. The IIMS survey indicated that rich poor divide has replaced the conventional rural-urban divide in accessing financial services, as measured by

the distribution of savings bank accounts. For those in higher income brackets, access to banks in rural areas is not vastly different from access in urban areas. The survey also reported that banks were approaching nearly 100 per cent coverage of persons having annual income of Rs 2 lakhs and above irrespective of geographic location in rural or in urban areas. The survey noted that India's poor, many of who work as agricultural and unskilled/semi skilled wage labourers, micro entrepreneurs and low salaried worker are largely excluded from the formal financial system. This report emphasised that individual income level is a deciding factor for owning bank accounts. This is no different from the trend all over the world where the economically richer group of people are being able to take advantage of financial systems better. Significantly, the percentage of the number of unbanked people is higher in the low income groups all over the world.

2.0 Why the Study of Urban Low Income Groups of People in India are Important?

India is a vast country with 1.2 billion people. Although majority of the people still live in the rural areas, India is in the process of rapid urbanisation and the urban population has increased significantly in recent years. It is interesting to note that in India the population in urban areas is growing at a faster rate than in rural areas and at a much faster rate than the overall population growth. As per census data, for the first time since independence, absolute increase in population is more in the urban areas than in rural areas during the 2001-2011 decade. The level of urbanisation has also increased from 27.81 percent in 2001 census to 31.36 percent in 2011. During the last few decades, large scale migration of people has taken place to the urban areas of India, and hence, the cities have sizeable economically vulnerable section of the population characterised by low income, low social cohesiveness etc. Many of these urban low income groups may be out of the ambit of the formal banking system although places where they stay may have several bank branches. Most of them are engaged in non permanent odd jobs or are doing petty trade as self employment measure.

Detailed data on urban financial inclusion is not available. The existing research work in urban financial inclusion is limited. There is no special thrust on urban financial inclusion. C. Rangarajan Committee (Ministry of Finance,

2008) also noted that there is no clear estimate of the number of people in urban areas without access to organised financial services.

It is also observed that studies on Financial Inclusion are mostly rural centric in general and in Indian context. Much more empirical research on issues of urban financial inclusion is needed due to increased pace of urbanisation in India. Due to the lack of proper studies and sustained focus, perhaps less concerted efforts are being made to make this section of the population financially inclusive. Physical proximity to the modern financial system in terms of accessibility to the bank branches etc. is not an issue. However, it is very difficult to target these population as a group because of the lack of social cohesion among the people living in the urban areas as compared to their rural counterparts.

3.0 Financial Literacy and Financial Inclusion: Survey of Literature

Financial literacy could be referred to as the knowledge that allows an individual to make informed and effective decisions in respect of their financial resources. Financial Education/Literacy is an integral process for building basic financial skills and it is a continuous process. The organisation of Economic Cooperation and Development (OECD) has defined financial literacy as the ability to grow, monitor and effectively use financial resources to enhance the wellbeing and economic security of one's self, one's family and one's business. Financial literacy influences the demand side of financial inclusion as against the supply side of expanding bank branches, deploying business correspondents etc.

Globally, the Organisation of Economic Cooperation and Development (OECD) has been taking proactive initiative in generating awareness about financial education. It conducted major international projects on financial education and the resultant various guidelines and handbooks etc. could be seen in their website www.oecd.org. The RBI also initiated its financial literacy programme with the support of OECD. They started multilingual web comic strip aimed at children for teaching them about money. Detailed modules are also available in the RBI website. NABARD is also addressing the issue through their SHG Bank linkage programme. RBI issued a circular on February 2009 on model Scheme for Financial literacy to the commercial banks. After that the commercial banks started campaign for financial literacy. Literature on assessment of financial literacy of

the excluded segment of the population like low income groups are very limited. In this respect, the current study is exploratory in nature.

Cole, Simpson and Zia (2011) while analysing the Findex 2011 data have given a picture of financial literacy across the globe. They show that the basic financial knowledge is lacking in both developed and developing countries. On average, only 55 percent individuals could demonstrate basic understanding of compound interest, 61 percent could answer a basic question on the effect of inflation on savings and 49 percent responded correctly to a basic question on risk diversification. Low income countries are at the bottom of the performance. India's percentages of correct answers are 59 percent, 25 percent and 31 percent respectively.

Demirguc-Kunt et al. (2014) while analysing the reasons for people remaining unbanked across the world identified 'lack of trusts in financial institutions' as also a factor for financial exclusion which could be due to lack of awareness or financial literacy.

4.0 Rationale of the Current Study

It is seen that worldwide, the low income group of people generally remains financially excluded. In general, financial inclusion literature in India focus on rural areas. The urban low income groups who may also be equally excluded from modern financial or banking system are not being given due attention. As part of the study, the city of Guwahati has been taken which is the largest city in the North Eastern Region to study the urban financial inclusion in general and also to provide an assessment of the financial literacy level which influences financial inclusion from the demand side. Through this study, an attempt has been made to understand the level of participation in modern financial system among the low income groups of the people along with an assessment of their financial literacy and awareness level. Efforts have also been made to correlate their stated awareness level and important financial decisions made by them.

5.0 Data and Methodology

The working definition of low income groups of people have been taken and adapted from the Union Ministry of Housing and Urban Poverty Alleviation. As per the definition, the households having family annual Income below 2

lakhs have been categorised as low income groups (Desai, A., 2014). To determine the target group of population, the figures of Census 2011 for Guwahati city were taken into account and the target group was determined indirectly with the help of the workforce participation figures of the Census data. As per 2011 census, the population head count of Guwahati is 9,63,429 or roughly around 10 lakhs. The workforce participation rate of the city is around 41 percent. The status of employment reveals that among the workforce, 47.5 percent are self employed, 30.6 percent are regularly employed and 21.9 percent are casual workers. The majority of self employed and casual workers in the city are forming the economically disadvantaged and vulnerable section of the population and have every chance of being in the low income groups. With this calculation, around 2,76,000 of the population will be in the low income groups. Since this target group mostly falls into the unorganised category their exact numbers, location, etc. cannot be predetermined. The target area was the municipal ward areas of the city and care was taken to cover as many wards as possible. Mainly, the self employed and casual worker category was targeted in a purposive manner. Economically active adults of these categories with stated annual income of less than 2 lakhs and willing to participate in the study were only taken. There are softwares available for calculating the sample size depending on Confidence level and confidence interval. One such online calculator available is Rao soft Inc. For our study, considering the confidence level at 95 percent and confidence interval of 5 percent the minimum sample size would be 384 or roughly 400. The sample size for the study is 520 which is considered to be sufficient to draw inference.

6.0 Results and Discussion

To understand the extent of financial inclusion, one primary information collected is whether the respondent has a basic bank account or not. It was found that 319 (61.3 percent) persons have bank accounts and the rest 201(38.7 percent) does not have any bank account. Before going into the details of the financial literacy, a brief account of their socio-economic condition is given. With regards to their educational attainment 14.8 percent have not attended school, 20.8 percent studied up to class Fifth, 25.0 percent up to class Eight, 17.7 percent up to class Tenth and only 21.7 percent are qualified with higher education of more than class Tenth.

As per primary occupation, 14.4 percent are daily wage earners, 16.7 percent are self-employed with some skills, but majority (59.8 percent) are doing small petty trade. Only 9 percent were found to have been engaged in jobs having a salary. Almost all of them are basically part of the informal sector of the economy.

The majority of the persons i.e 420 (80.8 percent) reported their place of birth to be outside Guwahati. With regard to owning house, land or accommodation in Guwahati, 74.6 percent of the respondents do not have their own land or accommodation. Rest of them are having some properties in Guwahati. This implies that the majority of the low income group people are migrants and many of them do not have any immovable property in the city.

To assess the financial literacy level of the target group, the respondents were asked about a set of 6 financial terms which are commonly associated with the banking system. These terms were introduced one by one and questions were asked whether they had heard these words and if a particular term had been familiar, if they could explain the concept with some amount of clarity. The 6 terms used were 'Savings bank Accounts', Jan Dhan Yojana Accounts, Fixed Deposit, Recurring Deposit, Current Account and 'Zero Balance Account'. Results show that all the respondents have heard at least one of these terms and almost all of them have heard about the savings bank Accounts. Another term, which most of the respondents are familiar with is Jan Dhan Yojana which indicates the success of awareness programme associated with the scheme. Awareness about the rest of the terms is not universal and this requires some knowledge about the type of products offered by the banks and also about the expectations of the customers from the bank. So for assessing the relationship between financial literacy level and the participation of the respondents in the formal banking system and other financial decisions taken in their life, the respondents have been subdivided into 2 categories. Those respondents who are familiar only with the Savings bank account and Jan Dhan Yojana and are not familiar with the other 4 terms used, are categorised as having lower level of financial literacy and those respondents who are familiar with at least 3 or more or all the terms used in the schedule, are categorised as having higher level of financial literacy. In Table 1, the relationship between literacy level and possession of bank account has been shown.

Table 1 Distribution of the Respondents by their Financial Literacy Level and having Bank Account

Serial No.	Financial Literacy Level	Bank Account Status		Total
		Bank Account Status	Not having Bank Account	
1	Having Higher Financial Literacy Level	188 (83.56)	37 (16.44)	225
2	Having Lower Financial Literacy Level	131(44.41)	164 (55.59)	295

(Chi-square value is 82.68. The difference is significant at 5 percent level)

Source : Calculated from Field Survey.

(Figures in the parenthesis indicate row percentages)

It is seen that among the respondents having higher financial literacy level, an overwhelming majority i.e., 83.56 percent have bank accounts. On the other hand, among the respondents having lower financial literacy level, only 44.41 percent possess any bank account. So, it is evident from the table that higher financial literacy level may have influenced the respondents to participate in the formal financial system in terms of possessing a basic bank account. If we take a null hypothesis that there is no difference between persons having higher literacy level and low literacy level in possessing a bank account, perhaps the hypothesis would be rejected based on the chi-square value.

Another goal of the financial inclusion programme is to reduce the dependence on the informal sector for financial needs. Dependence on informal sources and unregulated players in the market may lead to the exploitation of the vulnerable sections of the population. Dependence on informal sources of credit may lead to perpetual indebtedness. On the other hand, bogus companies may cheat or disappear altogether after collecting deposits from the gullible victims. In the Tables 2 to 4, these aspects have been looked into and attempts have been made to explore whether having higher level of financial literacy could influence people in curbing the tendency to depend on informal sector or guard themselves against the exploitation by the pervasive unauthorised financial companies.

The respondents were asked about their fallback arrangement or first preference in case of urgent requirement of fund either for consumption or investment purposes. Options were given whether they will approach friends/relatives/neighbours, Local money lenders, Own savings in the banks/other institutions/bank loans and Own Movable/immovable properties. The first two options indicate the dependence on the informal sector. It was thought to be interesting to see whether the level of Financial literacy have any influence on the respondents preference. The position is linked to their possession of bank accounts also. The summarised result is presented in Table 2.

Table 2 Distribution of Respondents by their financial literacy level and preference for informal sector alongwith their bank account status

Serial No.	Financial Literacy Level	Arrangement for sudden requirement of Fund				Total
		Preference for Informal Sector		Preference for formal sector or own resource		
		Have Bank A/c	Not have Bank A/c	Have Bank A/c	Not have bank A/c	
1	Higher Financial Literacy	175 (77.78)	35 (15.56)	13 (5.78)	2 (0.88)	225
2	Lower Financial Literacy	121 (41.02)	161 (54.58)	10 (3.38)	3 (1.02)	295

Source: Calculated from Field Survey

(Figures in the parenthesis indicate row percentages)

A look at the Table 2 will reveal that majority of people have preference for the informal sector in times of urgent need for fund. Less than 6 percent (only 28 number) respondents, out of the total of 520, has the confidence and willingness to be away from the informal sources in times of exigency, arising out of any other major unforeseen needs. This is true irrespective of their possessing a bank account. Having a bank account is not reducing their preference for the informal sector. Having higher financial literacy level also has not shown any noticeable impact on weaning away the respondents from the informal sector.

The respondents were also asked about whether they have come across or being approached by unregulated financial or any other such organisations which collect deposits/money in unauthorised manner and cheat the customers by disappearing, and not returning money as promised or incurring other harassments. It was thought to be interesting to see whether the level of basic financial literacy have any effect on the respondents in dissuading the temptation to fall into the traps of such organisations. The position is linked with their possession of bank accounts also. The summarised position is presented in Table 3.

Table 3 Distribution of the Respondents by their Financial Literacy Level and dealings with Other Organisations alongwith their Bank Account Status

Serial No.	Financial Literacy Level	Dealings with Other Organisations				Total
		Having Cheated/Bad experience		No Bad experience nor cheated		
		Have Bank A/c	Not have Bank A/c	Have Bank A/c	Not have bank A/c	
1	Higher Financial Literacy	61 (27.11%)	9 (4.00%)	127 (56.44%)	28 (12.45%)	225
2	Lower Financial Literacy	32 (10.85%)	27 (9.16%)	99 (33.55%)	137 (46.44%)	295

Source: Calculated from Field Survey

(Figures in the parenthesis indicate row percentages)

From Table 3 it is seen that among the persons having a higher literacy level, 31.11 percent are having bad experience or were cheated by some unauthorised or bogus organisations. On the other hand, 20.01 percent of the persons having lower literacy level have bad experience with such organisations. It is seen that in terms of percentage, the persons having higher literacy level are being cheated by unauthorised organisations more often. Their possession of relatively higher financial literacy level seems to have no effect on their dealings

with illegal or unauthorised financial organisations. Further, it is seen that 93 persons in spite of having bank accounts are having bad experiences with unregulated financial companies. It is actually paradoxical that persons who have experience of dealing with the formal, regulated mainstream financial system, are also falling victims of unauthorised financial institutions in large numbers.

The respondents were further asked whether they had ever taken any loan or credit from the informal sector during the past 2 years for life cycle needs, investment purpose or for any unforeseen circumstances. The informal sources include local money lenders, neighbours, friends, relatives or other non-governmental unregulated organisations. It was thought to be interesting to see whether the level of financial literacy have any influence over a person's decision to take credit from the risky and sometimes exploitative informal sector. For comparison purpose, among the respondents having bank accounts, information was collected on their taking loans from banks. This will indicate dependence on informal sector vis a vis the formal sector in terms of actual drawal of credit for various purposes. The results are given in Table 4.

Table 4 Distribution of Respondents by their Financial literacy level and taking loans alongwith their bank account status

Serial No.	Financial Literacy Level	Loans taken for various purposes			
		Loan taken from Informal sector			Loan taken from Formal sector (Bank)
		Have Bank A/c	Not have Bank A/c	Sub Total	
1	Higher Financial Literacy	62 (79.49)	16 (20.51)	78	11
2	Lower Financial Literacy	45 (57.70)	33 (42.30)	78	12

Source: Calculated from Field Survey

(Figures in the parenthesis indicate row percentages)

It is seen from the table, that the number of persons who have availed credit from banks is very minuscule i.e., only 23 persons fall into that category.

But paradoxically, more than half of this category of respondent (12 out of 23) are from the group having lower financial literacy level. Again, 156 persons have availed credit from the informal sector. This indicates substantial requirement of credit among the low income group of people. It is seen that almost the same number of people from the 2 groups differentiated by literacy level are showing their dependence on the informal sources of credit. The level of financial literacy seems to have no influence on their decisions for sourcing credit. It is also interesting to see that the majority of persons availing credit from the informal sector irrespective of their financial literacy level are also having bank accounts.

7.0 Conclusion

It is seen from the tabulated distributions that the level of financial literacy of the urban low income groups in Guwahati could be termed as only elementary and to some extent could be called superficial. For this reason, financial deepening has not taken place. Although around 61.3 percent of the respondents are having bank accounts, their awareness level could not be called satisfactory. They are probably not aware of the various financial products offered by the banks. They seem to be more comfortable to approach the informal sector for their financial service requirements. There is a long way to go for the stakeholders like the Government and the banks in generating proper awareness about the financial products offered by the formal sector. Urban low income groups of people work in difficult circumstances with few resources to fall back. Sometimes, they can not make well informed financial decisions. The need of the hour is to carry out a massive financial literacy programme for this group of people. Financial education efforts have to be customised to encourage savings and create awareness towards the banking services.

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