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Enhancing Financial Inclusion through Financial Literacy in India Post with special reference to Kanyakumari district

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Abstract

Financial inclusion is a crucial driver of economic progress, ensuring that individuals have unrestricted access to formal financial services and opportunities. In India, the role of India Post in advancing financial inclusion, particularly in rural areas, is significant due to its extensive reach and infrastructure. However, the success of financial inclusion initiatives heavily relies on the level of financial literacy among communities. This research, conducted in Kanyakumari district, aims to explore the relationship between financial literacy and financial inclusion in India Post.

India Post has shown continuous growth and has become a significant contributor to India's financial inclusion journey. It serves as an extension of the Indian banking system, reaching areas where traditional banking services may be limited.Financial inclusion is described as an easy access to and use of formal financial services or systems by all members of the economy. The demand side is addressed through financial literacy, which leads to financial planning, financial inclusion, and inclusive growth. By analyzing primary and secondary data, including questionnaires and existing literature, the study identifies key factors influencing financial inclusion and provides recommendations for enhancing financial literacy and expanding access to financial services in the region.

Key Words: Financial Inclusion, Financial Literacy, Financial Services

1.1Introduction

Financial literacy plays a pivotal role in fostering the success of the financial inclusion movement, especially among households. It involves employing innovative methods to encourage banking habits among rural communities. One such initiative is the "Banking for All" scheme (Pradhan Mantri Jan DhanYojana- PMJDY), aimed at integrating the under-banked and unbanked into the formal banking system. Despite the success of postal networks in promoting financial inclusion, they often receive minimal recognition and attention.

Financial literacy encompasses a range of knowledge, skills, attitudes, and behaviors necessary for making informed financial decisions and achieving financial well-being. It is the cornerstone of financial inclusion, as individuals need to understand and navigate financial services effectively. However, studies have shown a lack of awareness about various financial inclusion programs among rural populations.

In this context, India Post emerges as a potential catalyst in the financial inclusion process, particularly in areas like Kanyakumari district. Its vast network and accessibility can provide a new dimension to driving financial inclusion efforts. The main objective of this paper is to elucidate the significance of financial literacy in achieving financial inclusion in India Post's operations in Kanyakumari district. By understanding the role of financial literacy, policymakers and stakeholders can devise targeted strategies to enhance financial inclusion and promote economic empowerment within the region.

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1.2 Statement of the Problem

The problem at hand revolves around achieving comprehensive financial inclusion, where individuals have reasonable access to essential financial services. Initiatives such as Jan DhanSchemes, Atal Pension Scheme, and Prime Minister Insurance Schemes have been commendable steps towards this goal. However, there are significant challenges that hinder the progress of financial inclusion, particularly in rural areas like Kanyakumari district.One crucial aspect is the need to motivate people to save and invest in formal financial institutions. Simply opening bank accounts is not sufficient; there must be an increase in individuals' income sources to encourage savings and deposits. The earning potential of banks can improve significantly when people actively save and utilize banking services.

India Post Bank has emerged as a transformative force in rural India by addressing the lack of brick-and-mortar infrastructure in villages. Its presence has revolutionized the banking landscape, bringing financial services closer to rural communities. Despite this, financial inclusion progress remains slow.The main reason for this slow progress lies in the absence of an appropriate delivery model and financial products that cater to the specific needs of low-income families. To achieve meaningful financial inclusion, it is essential to develop tailored financial products and services that meet the unique requirements and circumstances of the underprivileged population.

The problem of achieving financial inclusion in Kanyakumari district lies in motivating savings, leveraging India Post Bank's presence, and addressing the gaps in delivery models and financial products to cater to the needs of low-income families effectively. Solving these challenges will be crucial in driving inclusive growth and economic empowerment in the region.

1.3 Review of the Previous studies

Malakar, D. (2013) "Role of Indian post in financial Inclusion",the research emphasized the crucial role of the Indian Post in driving financial inclusion in India. With its vast network and reach, particularly in rural areas, the Indian Post was identified as a key player in bridging the gap between the formal financial sector and underserved communities. The report recommended a collaborative approach, bringing together various stakeholders to create an inclusive financial ecosystem. Additionally, it advocated for the adoption of innovative practices and necessary changes to enhance the Indian Post's effectiveness in delivering financial services. By implementing context-specific policies and leveraging its strengths, the Indian Post can maximize its impact on financial inclusion and contribute significantly to inclusive growth in the country.

V. Ganesh Kumar (2013)it was observed that branch density in a state plays a significant role in determining the potential for financial inclusion in India. While literacy is essential in increasing investment awareness and serves as an important factor for financial inclusion, the study found that literacy alone is not sufficient to guarantee a high level of financial inclusion in a state. Instead, the density of bank branches was identified as a crucial factor that strongly influences the level of financial inclusion.

Guiso and Jappelli, (2008) The attainment of financial inclusion in India cannot rely solely on increasing investment awareness. Instead, it necessitates a significant enhancement of investment alternatives available to individuals. While raising investment awareness is crucial, it is insufficient to ensure comprehensive financial inclusion. Individuals with a higher degree of financial literacy not only tend to earn more from their savings but also demonstrate a greater propensity to invest in a diverse array of financial instruments. Therefore, promoting financial literacy and offering a wide range of investment options are both integral components in the journey towards achieving robust financial inclusion in India.

1.4 Objectives of the Study

1. Analyze the role of financial literacy in promoting financial inclusion
2. To predict the impact of financial literacy to financial inclusion
3. Provide recommendations to enhance financial literacy and expand access to financial services

1.5 Methodology of the study

The present research aims to analyse the function of post offices in financial inclusion and economic growth in Kanyakumari district. The study made use of both primary and secondary data. Primary data is

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gathered through the distribution of 614 questionnaires to India Post customers in Kanyakumari district. The questionnaires are designed to assess the level of awareness and understanding of financial services among the population. The collected primary data is complemented by secondary data from various sources, including the internet, periodicals, and post offices. The data is analyzed using descriptive statistics and confirmatory factor analysis (CFA) to assess the normality and validity of the acquired data.

1.6 Financial Inclusion in India Post

Financial inclusion, a critical objective in India, aims to ensure accessible and affordable banking and financial services for all individuals in a transparent and unbiased manner. India Post plays a significant role in advancing financial inclusion by providing a "many-to-one" solution, enabling individuals to access financial services through post offices even without a traditional bank account. This transition from informal to formal savings empowers underserved communities to participate in the formal financial system.Additionally, India Post's extensive reach allows for convenient payment collection from remote areas, facilitating bill payments for various services like telephone bills, power bills, examination fees, taxes, and educational fees.

Recognizing the importance of financial literacy, the Reserve Bank of India established Financial Literacy and Credit advice Centres in 2007. These centers offer free financial education and guidance to both urban and rural communities, enabling them to make informed financial decisions.India Post's Department of Posts (DoP) utilizes its rural network to deliver accessible and affordable financial and postal services to people residing in rural regions. Services such as postal savings plans, postal life insurance, mutual funds, money remittance, and foreign exchange services contribute to fostering financial inclusion among the rural population.

While financial inclusion works on the supply side by providing access to various financial services, financial education serves the demand side by raising awareness about the benefits and importance of utilizing formal financial services provided by banks and other institutions.Overall, India Post plays a crucial role in driving financial inclusion, bridging the gap between the unbanked and formal banking services, and promoting economic empowerment among marginalized communities in India.

1.6.1 Normality of Data

The normality of data is an essential aspect of statistical analysis to ensure the validity of the results. In this study, the researchers assessed the normality of customer opinions on financial literacy at the post office using descriptive statistics.

The standard deviation values of 1.22053 and 1.16874 indicate the extent of variability in the customer opinions. The skewness values between -0.589 and -0.735 suggest that the data is slightly negatively skewed, indicating a slight shift towards the lower end of the distribution. The kurtosis values between -0.211 and -0.469 indicate that the data has a relatively flat peak compared to a normal distribution, suggesting a moderate lack of peakedness. However, despite the slight deviations in skewness and kurtosis, the researchers concluded that the obtained data is normal. This means that the data conforms reasonably well to a normal distribution, which is crucial for certain statistical analyses to be valid.

To ensure data purification and finalization, the researchers used Confirmatory Factor Analysis (CFA), a statistical method used to validate measurement models and test hypotheses about relationships between latent variables and observed variables. The fact that CFA demonstrated the normality of the acquired data further supports the validity of the statistical analysis.

1.6.2 Confirmatory Factor Analvsis

Confirmatory Factor Analysis (CFA) is a statistical technique used to validate the measurement model in a research study. In the context of this study on financial literacy at the post office, CFA was employed to assess the convergent validity of the measurement model.

The researchers found that the standardized factor loading of the financial literacy dimension was significant at the P 0.01 percent level for all of the observed variables. Factor loadings greater than 0.50 indicate a strong relationship between the observed variables and the underlying latent construct

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(financial literacy). This suggests that the selected variables adequately represent the concept of financial literacy and are reliable indicators of this latent construct.

- **Convergent validity**

In CFA the convergent validity measured through standardized factor loading and Average Variance Extracted should be greater than 0.5 (Fornell and Larcker, 1981).

Result of Convergent validity and Composite Reliability

Table 1 Result of Convergent validity and Composite Reliability

Dimension	**AVE**	**CR**
Financial Literacy	0.5883	0.935

Source: Computed Data

The AVE measures the amount of variance captured by the observed variables in relation to the latent construct. A value of 0.5883 indicates that approximately 58.83% of the variance in the "Financial Literacy" construct is explained by its observed indicators. This value is considered acceptable for convergent validity.

The CR is a measure of the internal consistency or reliability of the observed variables in representing the latent construct. A value of 0.935 indicates high reliability, suggesting that the observed variables for "Financial Literacy" are consistent and reliable indicators of the underlying construct.

The present measurement Goodness of Fit Index (GFI) value is 0.987, exceeding the threshold value of 0.9, indicating a high level of fit for the financial literacy model. The Comparative Fit Index (CFI) value is 1.000, which also suggests an excellent fit of the data to the model.Furthermore, the Root Mean Square Error of Approximation (RMSEA) value for the present model is 0.000, which is less than the critical value of 0.08. This indicates that the model has a close fit to the observed data.

In addition, the value of CMIN, which represents the discrepancy between the observed data and the model, is less than the critical value (0.979 < 3) for the present model, indicating a good fit of the data.Overall, the measurement model for financial literacy exhibits a high level of fit to the data, as indicated by the GFI, CFI, RMSEA, and CMIN values, providing confidence in the validity and accuracy of the model's findings.

1.6.3 Financial Inclusion through Financial Literacy

Accessibility (Factors)

This Factor consists of Access to bank or other financial institution is not easy, No Post office's ATM centres are located nearby', Accessing Business Correspondent/Facilitator is difficult, 'Poor access to technology for using E-Banking services', 'Limited access to Information and Financial Advice.

Availability (Factors)

This factor consists of 'Opening post office account is not easy', 'Availing loan (FD and RD) from post office is a tough task', 'Value Added Services availed from post office is complex', 'Government benefits availed through post office is not timely', 'No tailor-made products are available to people'.

Deliverability (Factors)

This factor consists of 'Post office employees are not friendly and co-operative’. I feel absence of customer service in post-office', ‘Post-office products and services is poor', 'No prompt redress of problems’.

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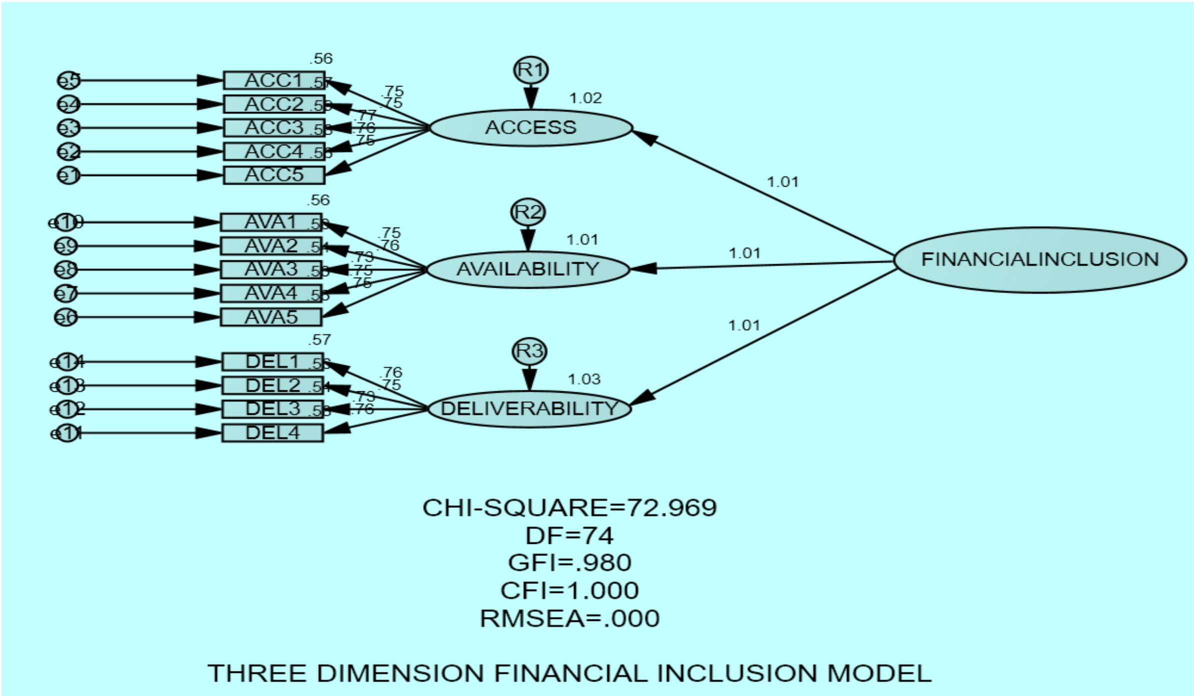

Figure 1 Post office Financial Inclusion model Standardised Estimate

Hypothesis (Ho): There is no significant difference between the three constructs of financial inclusion factors in the post office.

Table 2Regression Weights

Factor	Latent construct	Estimate	S.E.	C.R.	P
ACCESS	FINANCIALINCLUSION	1.000			
AVAILABILITY	FINANCIALINCLUSION	.948	.055	17.278	***
DELIVERABILITY	FINANCIALINCLUSION	1.006	.057	17.770	***
ACC5	ACCESS	1.000			
ACC4	ACCESS	1.003	.057	17.659	***
ACC3	ACCESS	1.023	.058	17.748	***
ACC2	ACCESS	.972	.056	17.452	***
ACC1	ACCESS	.994	.057	17.304	***
AVA5	AVAILABILITY	1.000			
AVA4	AVAILABILITY	1.043	.060	17.340	***
AVA3	AVAILABILITY	1.005	.059	16.927	***
AVA2	AVAILABILITY	1.053	.060	17.664	***
AVA1	AVAILABILITY	1.028	.059	17.306	***
DEL4	DELIVERABILITY	1.000			
DEL3	DELIVERABILITY	.932	.054	17.283	***
DEL2	DELIVERABILITY	.965	.054	17.739	***
DEL1	DELIVERABILITY	1.035	.058	17.933	***

Source: AMOS Text output

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Table 2 presents the coefficients for the deliverability dimension, which are slightly higher compared to the coefficients of the other dimensions in the same model. Specifically, when financial inclusion reaches 1, the deliverability dimension increases by 1.006.

At the 0.01 percent level of significance, all of the construct p-values are found to be significant, supporting the acceptance of the hypothesis that different dimensions positively determine the financial inclusion construct.

Assuming the Default model is correct, the probability of a discrepancy as great as 72.969 is 512. Furthermore, the critical parameters of the model are statistically significant.CMIN/DF is less than 5, GFI and CFI values are greater than.9, and RMSEA is less than 0.08, indicating that the default model is effective in measuring financial inclusion in post office.

1.6 Findings

Financial Literacy Significance: The study found that the standardized factor loading of the financial literacy dimension is statistically significant at the P 0.01 percent level for all observed variables with factor loadings greater than 0.50. This indicates that the observed variables related to financial literacy strongly contribute to and are reliable indicators of the financial literacy dimension.

Deliverability Impact on Financial Inclusion: The study revealed that when financial inclusion reaches a value of 1, the deliverability dimension increases by 1.006. This suggests that enhancing the efficiency and effectiveness of financial services provided by India Post positively influences overall financial inclusion levels.

Positive Relationship between Dimensions: The study's hypothesis, which states that different dimensions positively determine the financial inclusion construct, was supported by the data. This highlights the importance of addressing multiple factors, such as financial literacy and deliverability, to promote financial inclusion.

1.7 Suggestions

Establish Financial Literacy Centres in Rural Areas: To improve financial literacy and awareness, it is recommended to establish financial literacy centres in rural areas. These centres can provide education and guidance on various financial products and services offered by India Post, helping to empower individuals in making informed financial decisions.

Address Lack of Technical Innovation: To enhance financial inclusion, India Post should focus on embracing and implementing technological innovations. This could involve introducing digital banking services, mobile banking, or other modern solutions that cater to the needs of customers, particularly in remote areas.

Encourage Parental Involvement: Parental encouragement is essential for spreading financial literacy among children from a young age. By instilling sound financial habits early on, children can carry this knowledge into adulthood and effectively manage their finances.

Empower the Underprivileged: Special attention should be given to educating and empowering underprivileged communities on utilizing available financial services effectively. This can be achieved through targeted financial literacy programs that address their unique needs and challenges.

Increase Awareness through Advertising: To create awareness and interest in financial inclusion programs, it is recommended to invest in advertising campaigns. Utilizing local electronic and print media, and involving local celebrities and artists as brand ambassadors, can help reach a broader audience.

1.7 Conclusion

Financial literacy emerges as a critical initial step in the journey towards financial inclusion and inclusive growth. Educating individuals about financial products, services, and decision-making equips them with the knowledge and skills needed to make sound financial choices, enhancing their financial well-being.

Addressing poverty reduction comes hand in hand with inclusive growth, as financial inclusion provides marginalized populations with access to essential financial services, promoting asset accumulation and resilience during economic challenges.By empowering individuals with financial knowledge and ensuring

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their access to formal financial services, a strong foundation for inclusive growth and sustainable poverty reduction can be laid.

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