



Financial Literacy: Connecting the Dots

Harsha Vijaykumar Jariwala

Prestige Institute of Management and Research, Indore, India

Harsh Purohit

Banasthali Vidyapith, Rajasthan, India

Abstract

The case study is on the theme of financial inclusion, women empowerment and financial literacy. The study is based on a real-life experience of an illiterate woman of Gujarat State, belonging to Below Poverty Line (B.P.L.) category. It highlights how initially a woman was persuaded to open a bank account to make her financially empowered under the scheme of financial inclusion. Later, due to a lack of knowledge of basic financial concepts (basic financial literacy), she became a victim of financial inclusion, instead of benefitting from it. To summarize, the case drives home the point that making a woman financially literate is perhaps much more important than just persuading her to open a saving bank account and getting included in the formal financial system of India.

Key words: Financial Literacy, Financial Inclusion, Financial Education.

JEL Classification: G42, E42, E44, E50

Paper Classification: Case Study

Introduction

Ms. Alpa (Alpa), was a certified trainer engaged in spreading the message of financial education/literacy. She had received the training certificate from a leading government authority with national acclaim that is engaged in the mission of spreading financial literacy among Indian masses. As a part of the certification, her task involved conducting financial education training programs and workshops for promoting financial literacy which may help the participants to improve their financial behavior. She was invited by Saraswati Self Help Group (which was operating for illiterate home-makers of rural area of a Mehsana district in Gujarat, India) to conduct the financial education workshop series, in which she was to explain and elaborate to a group of 50 home-makers the basics of personal finance, importance of financial planning, budgeting and basics of banking etc. Her objective was also to motivate them to take an active part in household financial management.

In the program, Alpa, was surprised when Geeta, an illiterate rural woman participant, in her mid-twenties, showed her a letter from a leading public sector bank. The letter mentioned the

non-payment of installment dues from Geeta. Geeta briefed that all the dues were being paid on time. Alpa was wondering what would have happened. Why could the bank forward a letter for non-payment of dues? She also started thinking on the state of affairs for financial inclusion in the country. Geeta and others like her were farm-workers and were earning daily wages of Rs.70 per day for 5 hours of work every day.

The Financial Education Workshop

Once Alpa received an invitation from Saraswati Self Help Group, she was wondering about the level and sort of challenges she would face while addressing the audience. The biggest challenge to her was educating the un-educated on the topics of personal finance as these home makers had not even attended a regular school ever, in their life. She was also prepared to go that extra mile in terms of preparing the content of the workshop series.

Noontime was selected to conduct the workshop sessions. It was perceived that the participants, who were usually women home-makers were a bit free from their daily household duties at noon. Based on the schedule, on the first day of the workshop, the topic of budgeting was taught. The participants were exposed to the basics of budgeting. It included content on the importance of a budget – household budget, preparation and implementation of budget etc. Proper care was taken to make it an interactive session to retain the participants' interest. A small exercise on budgeting was also given to the participants.

On the second day, the participants were taught details about basic banking transactions. The topics covering the opening of bank accounts, types of bank accounts, depositing and withdrawing of money from the bank account, basic information about ATM etc. was covered in this workshop. To ensure greater involvement from the participants, the technique of role-play was adopted for gaining a better understanding of performing various banking transactions.

Participants were encouraged to be vocal on their questions and doubts if any. Usually participants shared their doubts and concerns in local language. Alpa attempted to answer the questions with logical ease and with giving examples. The majority of the participants faced concerns in not being able to understand documents and processes, which the Indian banking system followed. A few were also disturbed on account of the behaviour of the banking officials.

In a question-answer session, one of the home-makers, Geeta requested her to look at one letter. Alpa found that it was a notice of 'non-payment of installment for the last 9 months' issued by one of the public sector banks. In the notice, the monthly amount of installment was shown as Rs.2,342 along with a penalty charge of Rs.1500. Alpa was curious to know why Geeta had applied for a loan, if she was not able to repay installment regularly, adding that a loan is ideally taken for some business or economic purpose.

The Loan and the Pending Installments

Geeta told that she had paid all installments on time and presented the receipts of the same to her. Alpa went through the data on all receipts and found that the number of installments written in the notice, was paid by Geeta regularly as per the loan schedule. The receipts carried bank seal too. The bank account number was also correct. In fact, both of them checked a bank account number written by Geeta at the time of payment of monthly installment and verified the same with the bank account number of Geeta. Alpa was wondering if all the installments were paid on time, then why had Geeta received the notice from the bank? Alpa was eager to know what had

happened? She had asked Geeta to explain in detail the sequence of events, beginning from the day on which she had applied for a loan.

The Line-Up of Events

Ms. Geeta stated as under:

“Around fifteen months back, one bank officer approached our village and gathered some home-makers at a place. While addressing the homemakers, he informed them that one of the leading public sector financial institutions has decided to provide economic assistance to the women entrepreneurs for establishing a new venture with the project cost up to Rs.10 lakh in small scale sector under ‘Financial Inclusion’ and women empowerment under the name of “Mahila Udhyam Nidhi Scheme”, under which a loan will be sanctioned for a definite period according to the norm of Refinance Scheme of the bank at an interest rate of two per cent. This arrangement is targeted not only to offer soft loan support to the women entrepreneurs but also usual loan to establish a unit belonging to the category of the tiny and small scale sector including service activities.

Alpa interrupted and asked what she knew about ‘financial inclusion’? Geeta replied, ‘I think that financial inclusion is the availability of financial services. I also think it should not be costly and available to all.’

Alpa added that ‘you know what financial inclusion is all about’? Financial inclusion are a process through which accessibility, availability and affordability of the formal financial system is ensured to all members of an economy. It ensures that each section of the society including those who are from say weaker sections and low-income groups must have access to required financial products and services at an affordable cost in a fair and transparent manner, ranging from banking products but also other financial services such as insurance and equity products”. She further explained three dimensions of financial inclusion, as presented in Table 1.

Table 1: Dimensions of Financial Inclusion

ACCESS	It includes availability of formal and regulated financial services at affordable cost with physical proximity.
USAGE	It ensures people should access these financial services and products on regular basis whenever it is required.
QUALITY	Its emphasis on financial services should be designed to meet the financial needs of the specific target groups.

Geeta reiterated, ‘I thought that this loan could be fruitfully utilized to start a ‘paper bag’ business. Hence, I have applied for a loan of Rs.80,000. My loan was approved after a month. The sanctioned amount of the loan was Rs.75,000 at an interest rate of one and a half per cent per annum for a period of 48 months approximately. The bank officer asked me to open a saving bank account with a bank branch so that the sanctioned amount could be deposited in a saving bank account and there should be a loan account also....’

She further added ‘Accordingly, the sanctioned amount was credited in my newly opened saving bank account. Since the beginning, I got good number of orders for making paper bags. I found that after deducting all expenditures (including monthly installment amount), I could save a good amount of money per month’.

Geeta added that she started depositing money with the bank instead of keeping the same idle at home as she also wanted to repay all her debt with the bank. She started repaying her

installments regularly. Alpa asked her 'How did you deposit installments?' She replied, for the first three months, a Bank Correspondent (BC) regularly visited their village to collect instalment money on a pre-determined date. Those women (who have taken loan) were required to gather at one place to deposit the money with a bank correspondent. He used to collect their money and returned them a computerized slip as a receipt of the payment. While collecting the money they keenly observed him, to check whether he was always filling up their detail in the pay-in-slip correctly or not. She further added that she always wondered as the bank-correspondent never made a mistake while filling up pay-in-slips of any woman depositor even though all the borrowers had different installment amounts to pay.

Geeta said 'From the fourth month onwards, the bank had discontinued its service of collecting installment money through such a visit (BC). For this purpose I had to visit the bank branch personally. For this, I carried my passbook, and pay-in-slip. There I filled up the required details in pay-in-slip while depositing the installment amount, with the help of another bank customer who was unknown to me, who met me in the same queue, in which I was standing. I passed on all the documents to him and requested that I had come here to pay my monthly loan installment. He filled up accordingly by referring to her passbook. He also said, 'Madam, here on the passbook, the saving bank account of the account holder is printed, whenever you want to deposit the money in your account, you may refer to this bank account number'. Geeta also added "I deposited money by submitting the pay-in-slip that was filled up by that unknown bank customer. That unknown bank customer was really God for me". She recalled and said "the cashier had put a seal of the bank and returned half of the slip to her with the words 'money is deposited'.

Geeta in her own bewilderment said "I filled up the pay-in-slip in the same way approximately for nine months by referring the filled-up and bank sealed pay-in-slip of the installment which was filled up by the un-known bank customer whom I met in a queue in the bank, while visiting the bank very first time to pay for the installment.

Alpa said Geeta 'it was really good that you have decided to do banking transactions on your own by taking active involvement and taking out time from your busy schedule of managing household duties along with your business'. Alpa also asked her whether she had a record of any financial transaction done with a bank branch in her savings bank passbook. Geeta replied negatively and added that she did not know how to do it.

It was difficult for Alpa, to evaluate and understand where things could have gone wrong. As per the record of the stamped pay-in-slips of the last nine months, all the details were filled up accurately. She had an apprehension that probably the loan account number may have been different. First, she asked Geeta to approach the bank and ask the bank officer to update the saving bank account passbook immediately and also asked her to bring all the loan documents while coming to the next class of financial education workshop series.

Geeta updated her savings bank account passbook on the same day. While coming to the next class of financial education workshops, she brought all the documents viz. 1. Updated bank statement; 2. Record of all the pay-in-slips those she had filled properly and 3. Loan account documents.

Alpa went through all the documents. She found that the savings bank account number printed on saving bank account passbook and the account number written by Geeta were the same. But, unfortunately, instead of depositing the loan installment in the loan account, the same was deposited wrongly in the savings bank account. This was because instead of writing the loan account number on pay-in-slip, the savings bank account number was mentioned.

Alpa showed this mismatch between bank account numbers to Geeta. Geeta replied that the bank customer who was standing in the queue had told her that in future whenever she wanted to deposit her money in a bank, she should refer to the bank account number printed on the passbook issued to the account holder. Accordingly, she followed.

Alpa, continued the session of the financial education workshop, explained her, along with other participants the difference between saving bank account and a loan account as well as the other parameters of both.

Alpa also wondered after having a look at the loan document, as she found that there is a fixed rate of interest component charged by a bank. The service tax was 1%. When she asked Geeta 'Do you know by which method the interest was being calculated on your loan amount?'. Geeta wondered with a question 'How many methods are there for interest calculation?' Adding this 'Since, the first day of my business, I saved regularly after deducting all my business expenditures and paid all my monthly installments on time. I wanted to repay the whole loan as soon as possible, though I had to pay Rs. 1500 as a penalty charge, only because instead of writing the loan account number, I have been writing saving bank account numbers in pay-in-slip which is used to deposit the money. But the reality is all my money is deposited with the same branch of the bank'.

She also added 'The bank officer had never explained the difference between both of these accounts (loan account and saving bank account), as you (trainer) have explained. He never made me understand the terms given in the application form, in-fact he used to ask me to make a signature only at a certain place in the form wherever "cross sign" was made. He did not explain me the method of calculation of interest component and other important things. It should be his duty. Due to his mistake, I have been asked to pay penalty charges mentioned in the notice". She further added, 'This amount is really a big one for us, who are financially illiterate and live Below Poverty Line'. She had also told that before being included in the formal financial system, she wants to be financially literate first'.

Financial Inclusion

The Government has initiated the concept of 'Financial inclusion' with the objective of providing formally regulated banking amenities to deprived people, encouraging the practice of savings, protection, investment among them, and supporting them to get loans at reasonable rates from the banks. The objective for this is that they should not become victims of bad-selling or mis-selling by the local money lenders. Financial inclusion has emerged as a key pillar to the monetary empowerment of the financially weaker, particularly women. One of the significant features of financial inclusion is to provide access finance through SHG-supported bank linkages

The various schemes of financial inclusion enable the poor to build their own monetary assets from their savings within the SHGs and avail credit, pledging their collateral with the bank. This arrangement works as a shelter for this financially weaker section.

The Role of Banks

Banks play a crucial role in providing banking services to these un-served/ under-served. Under financial inclusion, instead of giving a credit to particular one or two woman/women, the credit is given to SHG (Self Help Group). This group normally consists of 10 to 20 women.

Opening of Savings Bank Accounts: The bank's primary role is initiated with the opening of accounts for the Self-help Groups. The members of the SHGs should be women, specially-

abled members and Groups of SHGs. The 'Know Your Customer' (KYC) norms are applicable for identification of the customers. Accordingly, banks also extend credit to Self Help Groups for fulfilling the credit needs of the SHGs, ranging from education, revenue generation activities, investment such as housing, to social needs such as marriages and dues substitution.

Norms related to Landing: Under these SHGs are eligible to avail of the benefit of Cash Credit Limit (CCL) and term loans.

The eligibility criteria to avail loan benefits for SHGs are:

- SHG must be active with respect to financial transactions at least for the last 6 months as per the books of account (not from the date of opening of a savings bank account).
- SHGs are to be committed towards regular meetings; regular savings; regular inter-lending; timely repayment; and up-to-date books of accounts since its existence.
- SHGs should also qualify as per grading norms fixed by NABARD.

Amount of Loan: Under this scheme, the loans can be offered at multiple stages for assisting SHGs at various stages throughout the period of time. The objective of this is to enable them to avail of higher amounts of credit for taking up viable occupations and enhance the quality of life. This loan can be sanctioned in the following fashion.

- 1st dose: four to eight times to the proposed corpus during the year or Rs. Fifty Thousand whichever is higher.
- 2nd dose: five to ten times of existing corpus and proposed savings during the next 12 months or Rs.1,00,000 whichever is higher.
- 3rd dose: A minimum of Rs. Two lakhs, based on the Micro credit plan prepared by the Self High Groups, appraised by the Federations/Support agency and the previous credit history
- 4th dose onwards: Loan amount can be between Rs. 5-10 lakh for 4th dose and/or higher in subsequent doses. The loan amount will depend on the Micro Credit Plans of the SHGs and their members.

Types of Loan and Repayment

Self Help Groups depending on the need can avail either a Term loan or a cash credit loan or both. An additional loan can also be availed should there be any need, notwithstanding that a loan already taken is outstanding.

- A typical Repayment schedule of the loan will be as follows:
 - ▶ 1st dose – To be repaid in 6-12 installments
 - ▶ 2nd dose – To be repaid in 12-24 months.
 - ▶ 3rd dose – approved on the basis of micro-credit plans. Repayment will be based on the cash flow from monthly to yearly installments, between two to five years.
 - ▶ 4th dose – Repayment will be based on cash flow from monthly to yearly installments and loan to repaid between three to six years.

Banks are also supposed to observe Post credit follow-up, which includes:

- A. To make it easier for SHGs, the passbooks issued for loans may be done in regional languages. This passbook shall mention the details of the loan given and also the terms and conditions applicable to the loan. Whenever a transaction is made by the Self-Help Groups, the passbook shall be updated.

- B. While the documentation is done and the loan is disbursed, Banks shall explain the terms and conditions, as part of financial education and
- C. One day in every fortnight bank staff shall do field visits and attend the meetings of SHGs. This will help to monitor the working of SHGs and also keep track of their performance.

Margin Requirement: Margin is not required for such loans. The corpus of the group shall be treated as margin. Group corpus is the amount available in the savings bank account of an SHG. The loan amount is determined based on the savings of the group in the corpus. The 1st dose of loan to the group should not exceed 4 times the savings corpus. If needed, higher loans can be given in case of repeat loans. The maximum limit of the loan per member of the SHG is Rs.50,000/-

Conclusion

Under the umbrella of financial inclusion, financial institutions are now required or willing to offer banking services to unbanked and under-banked people in the areas wherein they did not have their presence earlier. In fact, the government has also given prime importance to financial inclusion. If it is not done correctly, it will neither offer entirely new revenue streams nor 'include' the people economically. Financial inclusion focuses on the supply side, while the demand side is emphasized by financial literacy. Without focusing on financial literacy, a complete financial inclusion can't be attempted as a financially literate individuals can identify his/her financial needs and can demand the most suitable financial services accordingly. Financial literacy should go hand in hand with financial inclusion. Otherwise the poor, instead of getting help, will fall into more troubles.

Questions

1. Comment on whether a bank officer has done his duty correctly or there was a miscommunication from Ms. Geeta?
2. What made Geeta seek help from an unknown person in the bank?
3. Considering yourself as a manager of the said bank branch, would you find yourself responsible and accountable for this whole issue? How would you like to resolve the said issue?
4. Comment whether the bank has understood and followed the right approach of financial inclusion?
5. Do you think without promoting financial literacy, the dream of 100% financial inclusion can be achieved? Write your views on "financial literacy" and "financial inclusion".

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Authors' Profile

Harsha Vijaykumar Jariwala is working as an Associate Professor at Prestige Institute of Management and Research, Indore, India. She is empaneled as a Financial Education Resource Person for Securities and Exchange Board of India (SEBI) and a certified trainer for Financial Education by National Institute of Securities Markets (NISM), Navi Mumbai. Her research areas of interest are financial literacy, financial behavior, and Indian financial systems.

Harsh Purohit is a Dean at Faculty of Management Studies, Banasthali Vidyapith, Jaipur, Rajasthan, India. He is working on the project 'Bhartiya Model of Financial Literacy' and has taken initiative for Centre for Financial Planning, Training and Research for Women Banasthali Vidyapith. His research areas of interest are financial literacy, education and international finance.
