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Abstract of Doctoral Dissertation

Correlates of Financial Capability as a Strategic Precursor to Financial Inclusion : Selections from Uttar Pradesh, India[1]

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I. Introduction

THE TERM FINANCIAL capability has a motivation derived from the concept of personal finance. It simply states the person's ability to manage financial resources in an optimum manner. The economic development of the nation largely depends upon the way people get an access to formal financial system and the way they get an access to various benefits derived from the host of economic policies. A lot of talk has been therefore with reference to inclusive growth and development and financial inclusion has been marked out as one of the handy tools available for achieving the same. A number of policies have been formulated and executed and each one has only spurred up the economic growth curve by a few notches only to become slow and sluggish in the far end. One of the reasons has been the fact that the appetite of the people have become saturated once they end up buying a financial product or a service and the other fact is that the level of content with a traditional financial product like a savings bank account among the people has been reasonable. Hence, it becomes imperative that spreading concepts of financial knowledge and awareness needs to be expedited. Such an activity would only scale up the financial capability levels of people which can ease up the intake of financial services.

1.1 *The Concept of Financial Capability*

A lot of surveys have been conducted worldwide and a number of definitions have been context specific in various researches depending upon the purpose of the survey and of course upon the state in which the survey is being conducted.

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The term 'financial capability' has emerged relatively recently. For many years, policy-makers referred to 'financial literacy' which can be defined as 'the ability to make informed judgments and take effective decisions regarding the use and management of money' (National Foundation for Educational Research).

The Financial Services Authority (FSA) delineates five determinants of financial capability. These include the ability to manage money, to keep track of finances, to plan ahead, to choose financial products and to stay informed about financial matters.

World Bank (2008) in its working paper suggested that access to finance eases the limitation that external financing puts on to firms' expansion process. Lower access also leads to skewed income differences, poverty, and lower income growth rates. Therefore, access to finance would lead to an inclsive growth and developed financial system catering to all groups of people can be considered as a tool to reduce inequalities and poverty in various nations.

II. The Study : Objective, Data, Hypothesis and Research Methodology

The country has two major segments each one having a separate standing and footing with respect to the resources they possess and the relatie advantage they have over the rest of the people. One section is fairly laced in the society unyielding its power and has amassed resources playing a crucial role in capitalizing and leveraging upon the existing financial surge. The other section lacks resources and confidence in the existing system creating a need for the policymakers to redesign policies keeping in mind the latter section's fragile and yet more crucial position in the verall economy. The same people need to be financially educated about the importance of newer banking developments and personal finance.

Financial Capability is one of the ways by which one can leverage the existing meger resources to a sufficient level thereby helping them to come out of the povrty trap. Financial capability changes the view by which a person looks pon the money. It further changes the attitude towards management ofmoney and usage of financial resources. It encompasses several factors which iclude financial literacy, financial budgeting skills and financial planning and financial control.

It creates an interesting study to find out whether the financial resources have been fully utilized by the people in areas where the level of financial inclusion is a considerable one. It further creates a need for the study to find out whether the financial capability is a considerable driver of financial inclusion. It also emphasizes on the undercurrent that the financial resources with the people are managed only partially. No such work has been done before in the districts taken up for the study but it is pretty much evident that more and more work would be taken up in the area of financial literacy and extended financial literacy commonly known as financial capability. More research would be taken up doing exploratory analysis digging up all the relevant parameters which could shape up the underlying construct of financial capability.

The study undertaken assesses the levels of financial capability of people in regions of Lucknow, Kanpur Dehat and Gautam Budh Nagar. It tries to demarcate all such associates and determinants which could create a model of financial capability in Indian context. It further attempts to find out whether the differences in socio economic profile hold a bearing for the levels of financial capability. The study also further finds out whether it is an equally important parameter to be considered for the success of financial inclusion measures introduced in India.

2.1 *Significance of the Study*

The state of Uttar Pradesh has always been at forefront of major debates since it is vastly populated and it languishes very low in the list of developed states in India. Hence, inclusive growth seems to be a more pertinent question in Uttar Pradesh where a financial turnaround could be the only way possible to bring it back on development engines. It has surprisingly never achieved the level of growth which it always has envisaged throughout its economic plans. This has further kept development researchers on their toes to keep on finding issues that could possibly sum up as the most reasonable justification for the dismal development figures and indices. The state is plagued by poor literacy levels, awareness and lack of financial wisdom. Hence, financial inclusion has failed to reach the targeted levels as it had set out to achieve initially. Uttar Pradesh with its work force and its employable surplus still holds major cards for scaling up a radical splurge in development process for the country. Hence, a need arises to find out reasons as to why financial inclusion hasn't reached considerable levels. Also, financial capability level needs to be derived for the people in Uttar Pradesh which could possibly further provide an explanation for the diminishing levels of financial inclusion.

2.2 *Objectives of the Study*

The study entitled "Correlates of Financial Capability as a strategic Precursor to Financial Inclusion: Selections from Uttar Pradesh, India" has following objectives. The objectives are:

i. To develop a framework of financial capability in Uttar Pradesh, India.
ii. To measure the levels of financial capability across socio economic demographic profile.
iii. To analyze the determinants of financial capability and test the association of these determinants with the key demographic profiles.
iv. To establish the relationship between financial capability and financial inclusion in Uttar Pradesh, India.

2.3. *Hypotheses*

The entire study revolves around the operational framework which states that the financial behavior and financial capability of an individual would depend upon its major constructs: Overall Financial Knowledge, Money Management, Planning ahead, Choosing and ability to choose financial products and seeking help.

The research is designed on the basis of the following hypotheses

Hypotheses H01: *There is no significant association between overall financial capability and the gender of the people.*

Hypotheses H02: *There is no significant association between overall financial capability and the age of the people.*

Hypotheses H03: *There is no significant association between overall financial capability and the location of the people.*

Hypotheses H04: *There is no significant association between overall financial capability and the education of the people.*

Hypotheses H05: *There is no significant association between overall financial capability and the income levels of the people.*

Hypotheses H06: *There is no significant association between overall financial capability and the occupation of the people.*

Hypotheses H07: *There is no relationship between financial capability and decision maker in the family.*

Hypotheses H08: *There is no relationship between financial capability and financial inclusion of the people.*

2.4 *Research Design and Methodology*

The research design is a mix of conclusive and exploratory research design wherein an attempt has been made to initially derive a conceptual framework of financial capability and then use the same framework to arrive at a measure of financial capability.

All adults above the age of 18 in Uttar Pradesh, India form the universe for the study under consideration. Various bank officials and people linked with financial inclusion were also interacted while forming the conceptual framework for the study.Sampling unit is an object for which the data being gathered. For this study, all individuals in the districts of Lucknow, Kanpur Dehat and Gautam Budh Nagar are considered as sampling unit.

The sample size is 600 adults above the age of 18 from the districts of Lucknow, Kanpur Dehat and Gautam Budh Nagar each contributing to 200 adults. The sampling frame included all the adults above the age of 18 in districts of Lucknow, Kanpur Dehat and Gautam Budh Nagar.

Initially, the three districts of Lucknow, Kanpur Dehat and Gautam Budh Nagar are selected on the basis of non-probability judgmental sampling. The underlying judgment behind such a selection is that all the three districts scored high on levels of financial inclusion on CRISIL Inclusix 2013. The final selection of the sample was done using convenient sampling method while selecting the adults above the age of 18 years from the selected districts.

The primary data was collected from respondents from three districts by conducting face to face interviews using structured schedule as a data collection instrument. The instrument was developed after comprehensive discussions with various participants such as bank officials and the targeted respondents as well as members of Self Help groups. A Pilot test was done with the questionnaire as well to test the reliability before proceeding with the actual data collection process. The research instrument had a specific format and each question catered to a specific research objective.

2.4.1 *Model of Financial Capability*

Financial capability is commonly referred to as an individual's capacity to make financial decisions and judgments that contribute to his or her immediate and long-term financial security. This study focuses on major dimensions to measure the construct of Financial Capability. These include (a) Overall financial knowledge; (b) Money Management; (c) Planning ahead; (d) Choosing and managing financial products; (e) Seeking Help.

III. Findings of the study

The findings are the research results of an extensive analysis of the data in the research study. All the findings are related and are in context with the set out objectives of the research.

3.1 *Findings for the Objective 1: Conceptual Model of the Construct of Financial Capability*

The framework of the construct financial capability was derived using factor analysis. The model consisted of five factors. This included following sub constructs: (a) Overall Financial Knowledge; (b) Money Management; (c) Planning Ahead; (d) Making Financial choices; (e) Seeking Help.

Each of the sub constructs were underlined by certain questions directed to capture the essence of the sub construct.

The first factor was overall financial knowledge which included questions on the following: Knowledge about banking, knowledge about government schemes, knowledge about financial markets and knowledge about risk management products. Each of these sub-constructs compiled diverse dimensions which catered to creating a precise score of the construct. The construct of Knowledge about banking contained questions on knowledge about savings account, term deposits, ATM, zero balance and loan products. The knowledge on risk management contained questions on pension and insurance while the knowledge about government schemes included Knowledge about MGNREGA and Knowledge about Ration, PDS and Jan Dhan Yojana. The construct of Knowledge about economic situations covered economic slowdown and inflation. Also, the knowledge about financial markets included Knowledge about shares, bonds and mutual Funds.

The second Factor was the construct of Money Management which included questions such as

- Do you keep a personal watch on the daily expenses
- Do you have a bank account for the management of the expenses
- Do you keep a record of the money at bank and the money withdrawn
- Have your bank balance gone below the minimum requirement
- Do you have your money left after meeting expenses

The third Factor was named as Planning Ahead and covered questions

- Do you prepare a plan for the expenses and execute the same as well
- Have you made any plan for the contingencies
- Do you love saving for tomorrow rather than spending today
- Do you set long term goals in a budget and try achieving them

The fourth Factor was about making Financial Choices and covered facets such as

- Do you consider various sources of information before buying a product
- Do you consider various financial products before buying one
- Did you seek any professional advice before buying a financial product
- Does a professional do all the work on your behalf while buying a financial product

The fifth Factor was about Seeking Help and Advice and included dimensions like

- Do you know where to resort to incase of a complaint against the non-performance of a financial product as promised
- Do you get help from your acquaintances before buying a financial product
- Do you keep updated information on financial matters?

All above sub constructs were together compiled to make a construct of financial capability.

3.2 *Findings for the Objective 2: To measure the levels of financial capability across socio economic demographic profile.*

It contained an analysis of total of 30 questions to measure financial capability and it was found that most respondents scored from moderate to high on the derived scale.

- Kanpur Dehat scored highest towards the positive end of financial capability scale as compared to Lucknow and Gautam Budh Nagar.
- There is a significant association between overall financial capability and the demographic profile of the people measured in terms of location.
- There is a significant association between overall financial capability and the demographic profile of the people measured in terms of gender.
- There is a significant association between overall financial capability and the socio-economic profile of the people measured in terms of education.
- There is a significant association between overall financial capability and the socio-economic profile of the people measured in terms of occupation.
- There is a significant association between overall financial capability and the socio-economic profile of the people measured in terms of monthly income.
- There is a significant association between overall financial capability and the demographic profile of the people measured in terms of age.
- There is a significant association between overall financial capability and the mode of financial decision making in the family.

3.3 *Findings for the Objective 3: To analyze the determinants of financial capability and test the association of these determinants with the key demographic profile.*

- Overall Banking Knowledge as a determinant of financial capability
- Nearly 10 % of the total respondents possessed a poor knowledge of the banking services while approximately 55% of the entire sample surveyed had a moderate knowledge of the banking services.

- Gautam Budh Nagar contained maximum percentage of respondents who had the highest banking knowledge.
- Lucknow also has the maximum number of respondents who had moderate banking knowledge followed by Kanpur Dehat and Gautam Budh Nagar.

3.3.1 *Money Management and Demographic profile*
- Characteristically, a large chunk of the respondents find it simple, easy and convenient to keep idle money with banks in the form of a savings product.
- Respondents in Lucknow seem to have a greater affinity towards money management activity. Gautam Budh Nagar showed the least confidence for money management activity as a whole as compared to the rest of the sample.
- Also, the habit of keeping a close track of incomes and expenses was more prevalent in Kanpur Dehat followed by Gautam Budh Nagar and Lucknow.
- It showed that the male respondents had a higher capability to manage money as compared to their female counterparts.
- However, it should also be noted that nearly one third of the male respondents also have shown a below average behavior towards this parameter and have lesser ability to save and manage money.

Capability to make Financial Choices and Demographic profile
- Maximum capability was observed at Kanpur Dehat where the respondents were seen to seek help more often followed by Lucknow and Gautam Budh Nagar.
- It was noteworthy to also find out that most of the respondents were able to score more than 50 percent across all the sample indicating their reasonable ability to seek help as and when required.
- However, it was also observed that the same capability increases if there were joint family decisions.

3.4 *Findings for the Objective 4: To establish the relationship between financial capability and financial inclusion in Uttar Pradesh, India.*

The regression analysis was done to measure the variation in financial inclusion level based on variation in financial capability level.

- The following regression equation was derived. Financial Inclusion Level = 3.951 + 1.002 (Financial capability Level)
- It was seen that the R^2 value is 0.879, which shows that 87.9 % of variance in financial inclusion levels can be predicted by his/her financial capability level.
- Around 12% (1.000-0.879=0.121) in a person's financial inclusion cannot be predicted by his/her financial capability level.
- The regression equation appeared to be very useful for making predictions, since the value of R^2 is close to 1.
  This research also used multiple regression to understand whether financial inclusion can be predicted based on sub constructs of financial capability.
- The following regression equation was derived.

Financial Inclusion = 0.653 + 0.388 C_1 (Money Management Capability) + 0.093 C_2 (Planning Ahead Capability) + 0.109 C_3 (Capability of Making Financial Choices) + 0.240 C_4 (Capability of Seeking Help) + 0.24 C_5 (Overall Financial Knowledge)

- It was seen that the R^2 value is 0.838, which showed that 83.8 % of variance in financial inclusion levels can be predicted by his/her financial capability determinants.
- Around 16% (1.000-0.838=0.162) in a person's financial inclusion cannot be predicted by his/her financial capability determinants.
- The regression equation appeared to be very useful for making predictions, since the value of R^2 is close to 1.

IV. Finding and Conclusion

The following recomandetion are being made base or empirical finding of the study

i. Greater focus should be given on financial education of the people before the age of 40. They are prone to making more miscalculations as there is a greater financial incapability among the people at that age.

ii. More emphasis should be placed on creation of financial education measures designed to press upon the need of retirement planning and other personal finance measures. The people can further give the same education to near and young ones. The need to assess the relevance and appropriateness of the current retirement and pension plans should be pressed upon and awareness should be created so that apt decisions are taken when needed.

iii. It is suggested that females should be targeted to provide financial education and it should be seen as a necessary vehicle for women empowerment and encourage them to participate in the decision making at the household level.

iv. It should design the financial education material as an information and instruction and not as an advice. Further, it should be provided in fair and unbiased manner.

v. For promoting and coordinating financial education, the national, regional, local public and private initiatives should reach the population and raise awareness of the population about the need to improve their understanding of financial risks and ways to protect against financial risks through adequate savings, insurance and financial education.

vi. Financial awareness drives complement the important aspects like greater transparency, policies on consumer protection and regulation of financial institutions.