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Influence of Financial Inclusion and Financial Self Efficacy on the Credit Behaviour of BPL households

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Abstract

The government of India has introduced various schemes to promote the level of financial inclusion of the poor people. Financially included people will get more opportunity to use and learn about basic financial products. This will definitely improve the financial knowledge and financial self efficacy. The improved level of inclusion enables the poor to access the credit facility offered by the organised channels and thereby the risk and cost associated with the credit will be reduced. But the access to formal credit depends on the credit behaviour of the public. The researchers tried to establish a linkage between the level of financial inclusion, financial self efficacy and the credit behaviour of BPL households in central Kerala. It is established that credit behaviour of the BPL households are significantly influenced by the level of financial inclusion and the level of financial self efficacy.

Key words: Financial inclusion, Financial self-efficacy, Credit behaviour, Financial Inclusion Index and Credit behaviour index.

Introduction

Money management is a complicated task influenced by financial literacy, access to financial products and serviced and financial behaviour. Financial literacy includes, "knowledge about financial products and financial practices" (Perry and Morris 2005; Fox et al.,2005; Berkhalter 2005; Mendell 2005;Hogarth and Hilgert 2002; Chen and Volpe 1998). It is integral to the people's lives which motivates their behaviour in many ways (Medina et al.,1996). Money earned by the people is spent for different purposes and the surplus if any is to be saved. Mere saving of money will not ensure return or protect a person from risk. Hence money saved should be invested in income generating proposals and in insurance products that can give coverage against risks. Financial needs of human beings cannot be met out of own resources, necessitating the need for credit. Sources of credit differ on the basis of cost and risk associated with the credit. It is the responsibility of the financial system to provide credit at affordable rates to those who need it. At the same time, the borrower has the responsibility to use the money raised from debt sources in a wise manner. Moreover, it is the responsibility of the borrower to identify the lender who can provide credit at acceptable terms and conditions. Hence it is inevitable to have some degree of financial knowledge and money management skills to any one deal with money in families. Financial knowledge and the money management skills required to be acquired by human beings to ensure a disciplined financial affairs are technically referred to as financial capability.

Financial Capability can be "considered as an ability of applying appropriate financial knowledge and perform desirable financial behaviours to achieve financial well-being" (Xiao, 2015). It relates to the ability of a human being to manage personal finance in a most effective and optimal way. For many researchers, financial capability is a broader concept that encompasses financial literacy, financial behaviour and financial self-efficacy (Taylor, 2011). It is the knowledge and skills of decision makers to use money efficiently, act within a supportive financial environment, and arrive at sound decisions. Staying informed about the financial products/services and economy is as an important element for determining the financial capability of households (Atkinson et al., 2006). But some researchers feel that differences in financial capability are more psychological than informational differences (Xiao, 2015). Hence, researchers like De Meza et al., (2008) stressed for behavioural modifications along with content delivery in financial capability programmes. The access to and ownership of financial resources and products are inevitable to translate one's knowledge into practice and to achieve their desired financial goals. This study explores the relationship between financial inclusion, financial self-efficacy and borrowing behaviour among a sample of BPL households.

Review of Literature

Financial Inclusion

Financial inclusion refers to a "process whereby opportunities are created for all persons receptive to financial services, especially poor and under privileged, to enjoy financial services suited to their condition in life at their convenience and at their time of need"(Christabell & Raj, 2012). The Government of India and the banking regulator in India, RBI, has introduced several measures to improve the financial literacy, access to savings, credit and insurance through financial inclusion efforts. In addition, SHG Bank linkage programme and MGNREG have played a significant role in improving the access to financial services in India. Direct Benefits Transfer (DBT) of subsidies under various welfare schemes directly into Aadhar linked bank accounts, provision of low-cost financial services through PradhanMantri Jan-DhanYojana accounts, and rolling out of technology enabled banking services to all are few notable measures from the part of the government. But still a large majority of the marginalised people do not have access to credit from formal credit delivery channels. A borrowing decision can be considered 'rational' only 'if that borrowing decision is made by a well informed individual triggered by an objective need, with the objective of maximising the benefits through borrowed fund' (Robb, et al., 2015). The task of financial inclusion is broad in scope and should be viewed as the provision of a set of financial products including deposit accounts, overdraft facility, credit, investment products, payment services, micro-insurance and social pension schemes. Financial inclusion entitles a person to use necessary financial products suited to his/her requirements in life. The experience with such products improves financial awareness and builds confidence to manage personal finance. We argue that financial inclusion empowers poor to manage their finances and such empowerment builds a sense of financial efficacy in beneficiaries of such inclusion programmes. Financial self efficacy helps to become goal oriented, optimistic, forward looking and prompt to take wise financial decisions.

Financial Self-Efficacy (FSE)

Self-efficacy refers to "an individual's sense of self-assurance in one's own capability to accomplish a given task and to view threats and challenges as an opportunity to make progress". Self-assuredness in one's ability to complete a task successfully increases both the likelihood of undertaking it and the probability of success. Self-efficacy is an important psychological trait that influences human behaviours. Self-efficacy of people can be identified from their behavioural traits, such as whether—

1) they approach a challenge or an obstacle as an opportunity,
2) they are enthusiastic or apathetic in the task/activity they performs,
3) they have a strong or weak commitment in chasing goals,
4) quick or slow to recover from setbacks and frustrations, and
5) they have an optimistic or pessimistic attitude about their future (Bandura, 1977, 1986, 2010; Farrell, Fry, & Risse, 2016)

A person with high self-efficacy has an optimistic attitude in their life, set challenging goals, maintains strong commitment to achieve desired result, and quick to recover from set-backs. Financial self-efficacy refers to 'individuals' sense of confidence in one's own capability to successfully manage their personal finance'. Self-efficacy is an important indicator in explaining personal finance behaviour(Farrell et al., 2016) and improvement in self-efficacy could lead to positive behavioural change .It is also found that rise of income will result in the improvement of financial autonomy and self efficacy. Experiments have shown that a positive sense of self-efficacy can be created in those who lack through financial education, financial counselling, and financial skill development programmes(Danes, Huddleston-Casas, & Boyce, 1999). However the knowledge and skills gained from intervention programmes are of little use if they are not put into action (Lown et al. 2015). Without confidence in one's own ability to accomplish a financial goal, knowledge is not likely to give way to action, hence financial self-efficacy also matters(Danes et al., 1999). Conversely financial inclusion programmes were also likely to facilitate experiential learning out of the familiarity with financial products. These hands-on experiences are likely to promote feelings of self-efficacy, or confidence in one's ability to successfully manage financial matters.

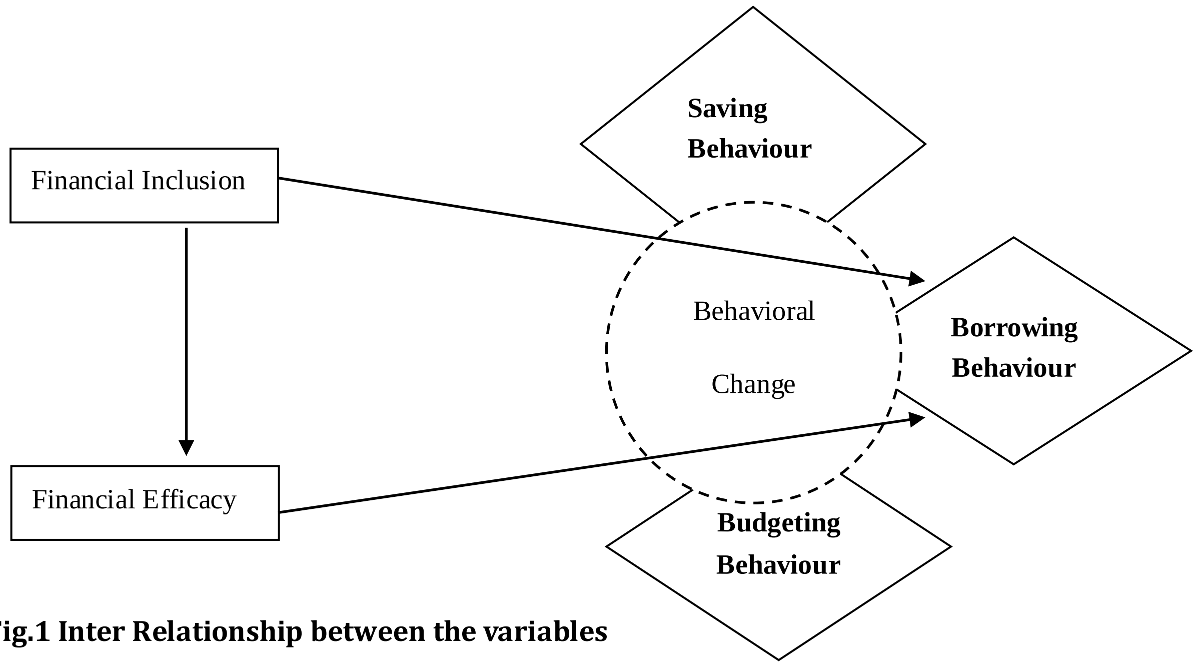

Fig.1 Inter Relationship between the variables

Role of SHG and MGNREGA in Financial Inclusion

Mainstream financial institutions are half-hearted in lending to women and financially excluded directly. But nowadays banks are enthusiastic about lending to poor through micro-credit institutions and Self Help Group-Bank Linkage programme. This is a win-win situation for all. This helps banks to enhance the scale and coverage of their operations, SHG members benefit out of access to low-cost credit at favourable terms, and the government could achieve a great leap towards its social empowerment and financial inclusion agenda. The alliance of poor and vulnerable population with SHGs or MFIs empowers them socially and economically (Anand, 2002; Dahal, 2015), helping to switch to digital financial services. A vast majority of rural and urban poor open bank accounts and enjoy basic banking facilities as part of receiving direct benefit transfer from various government agencies (John, 2015). This gives some sort of financial autonomy and control over their personal finance (Ghosh & Vinod, 2016). The active participation in SHGs, NRLM,MGNREGP,DBT etc., improves access to formal banking system and credit, ensures financial mobility(Sundaram, 2012) and inculcate banking habits in poor people, especially the vulnerable.

Credit Behaviour

Financial behaviour refers to "human behaviour relevant to money management" (Xiao 2008). Behaviours related to earning, spending, saving and borrowing are included in financial behaviour. According to the 70th Round of NSS, the 'incidence of indebtedness' of Indian households (as on 30.06.2012) was about 31.4% and 22.4% among the rural and urban households respectively (NSSO, 2013) and it was widespread in southern states including Kerala. In Kerala, the IOI stood at 49.5% (rural) and 47.0% (urban), much higher above the national average. Borrowing behaviour relates to the various actions of the borrowers regarding selection of lender, the purpose of loans, application of debt funds, default and delay in repayment. Borrowing of money from formal financial institutions is considered as desirable borrowing behaviour. Whereas borrowing from non-institutional credit agencies and money lenders are irrational because of high rate of interest and unfavourable loan covenants. But, loans from institutional credit agencies were perceived to be difficult to get in the case poor who lacks adequate collateral securities as demanded by banks, and hence a few had taken loans from banks (Bhatia & Arnav Chatterjee, 2010). If a person borrows money without an objective need, ignoring the risk and loan covenants are not considered as a responsible borrowing decision. There are many factors that affect borrowing behaviour such as demographic factors (Günay, Boylu, & Bener, 2013). Unbanked status also influence borrowing decision, especially the use of high-cost alternative financial services (Birkenmaier & Fu, 2015).People with poor borrowing behaviour and financial awareness likely to use high cost debt as well as alternative financial services (Chatterjee, 2013). High cost borrowing comes from vulnerable and poor persons (Lusardi & Tufano, 2009). There is evidence that financial awareness also affects borrowing behaviour. People with higher financial capability (and awareness) use debt effectively and maintain emergency savings to cover unexpected expenses (Ajzerle, Brimble, & Freudenberg, 2013). Perry and Morris (2005) argues that people with high income and high self efficacy are more likely to engage in responsible financial behaviour where as lower levels of financial self-efficacy and financial knowledge results in negative behaviour. It The above reviewed literature enables the researchers to argue that the level of financial inclusion and financial self-efficacy has a strong impact on the credit behaviour of the people.

Methodology

The study has been conducted among low income households depending on daily wage belonging to two Panchayaths and one Municipality in Kottayam District of Kerala. 81 respondents have participated in the survey of which 54 per cent are male and the rest female. Since the study attempts to identify the linkage between the level of financial inclusion, financial efficacy and its influence on the credit behaviour of low wage earners, a financial inclusion index was constructed using survey data. Credit behaviour of the respondents was studied with a scale developed by the researchers, whereas financial self-efficacy was measured on the basis of the scale developed and validated by Lown, (2011). A financial Inclusion index was developed by taking into account the access to 11 financial services and products available to common man like savings bank account, fixed or recurring deposits, debit or credit cards, life and health insurance policies, e banking, mobile banking, wallets, shares etc. Statistical techniques like averages, standard deviation, t test, ANOVA, regression analysis etc. were used for analysis.

Discussion of Results

Table: 1 Socio - Demographic Features of the Respondents

Gender	No	Per cent
Male	44	54.30
Female	37	45.70
Age		
Up to 35 years	31	38.30
36-55 years	33	40.70
56 and above	17	21.00
Education		
Below SSLC	22	27.20
SSLC	17	21.00
Plus Two	21	25.90
Diploma	10	12.30
Degree and above	11	13.60
Location of Residence		
Rural	66	81.50
Urban	15	18.50
Membership in SHG		
Yes	41	50.60
No	40	49.40
Beneficiary of MGNREG		
Yes	28	34.60
No	53	65.40
Total	81	100

Financial Inclusion Index (FI I)

The financial inclusion index is a numerical value representing the extent of access and utilization of financial services, products and facilities available for common man. Various options made available to the respondents for assessing their inclusiveness are classified into three categories namely,ownership and access to banking products and services, utilisation of banking channels, and the ownership of insurance and investment options.

a) *Ownership of financial products and services*

To calculate the penetration of financial products, we use the question: "During past one year, did you have any of the following products and services? The respondent has to choose from a pack of banking, financial, credit and investment products offered by formal institutions.

b) *Utilisation of banking channels*

The extent of utilising banking channels is measured by asking, "During past one year, did you have used any of the facilities". The respondents has to choose as many channels he has been using such as 'cheque facility', 'debit card facility', 'credit card facility', 'e-banking facility', 'overdraft facility', 'mobile wallets', and 'mobile banking'.

c) *Access to Insurance and investment*

Protection against risk is an important indicator of financial inclusion. All families are expected to have insurance policies in the name of their bread winners and other members to avoid the financial distress on account of death or ill health of family members.

The positive responses to each question in first two categories were assigned a positive value of 10. There were altogether 11 items in these groups and hence the maximum possible FI Index is 110. Since, the savings bank account held by a customer may be operative or in operative, a check for that is also incorporated by assigning a negative value of 10 for accounts remained as inoperative for the last three months. The FII calculated is presented on the basis of the age and the level of education of the respondents and tested the significance of difference between sub samples

Table: 2 Average FII based on the AGE and Level of Education

FII Based on Age			
Age	Average FII	N	Std. deviation
Up to 35 years	36.77	31.00	17.96
36-55 years	36.67	33.00	13.39
56 and above	20.00	17.00	15.00
FII Based on Education			
Below SSLC	20.91	22.00	16.88
SSLC	31.18	17.00	14.53
Plus Two	39.05	21.00	15.46
Diploma	38.00	10.00	11.35
Degree and above	45.45	11.00	12.14
Sig. (based on education)	**.021**		
Sig (based on age)	**.000**		

The Financial Inclusion Index presented in table: 2 reveal the level of inclusiveness of the poor households. Since the maximum possible FII is 110, the averages computed on the basis of age and level of education reveals that the sample respondents are financially included only to a minimum level. Age wise comparison reveals that young men and women have better index than that of older ones. This may be result of the efforts of the government to include people to the official channels. Young people have an average index of 36.77, whereas the same in case of old respondents is only 20. The middle aged people also have better index than the old ones. Education is expected to play a significant role in financial inclusion and financial literacy. The FII on the basis of the level of education truly represent the fact that the education is playing a very good role in inclusion. The average score in case of respondents having schooling only is 20.91 whereas the same in case of respondents who have degree is 45.45. ANOVA is used to test the significance of mean difference between respondents found that the significant values (.021 and .000) respectively in case of age and education. Since both the values are less than the cut off value (.o5), the difference between respondents in respect of their inclusiveness is significant. This finding indicates that the recent initiatives of the government regarding financial inclusion are successful in providing access to financial services.

Measuring financial self-efficacy

Self-efficacy can be measured through the assessment of individual's sense of self-assuredness to manage difficult problems, sense of self-belief in coping capabilities, way of approaching challenges as opportunities, prospects of bright financial future and degree of optimistic attitude about future (Farrell et al., 2016; Lown, 2011). In our study, we have used the Financial Self-Efficacy Scale (FSES) developed and validated by Lown (2011). Individual who lack financial self-efficacy have a weaker financial planning capacity and potentially poorer financial prospects (Farrell et al., 2016). Some other researchers (Farrell et al., 2016; Lown et al., 2015) have also used this scale in their studies.

Table:3 Reliability Statistics of FSE Scale

Items	Item-Total Correlation	Cronbach's Alpha
Hard to stick on to spending plan in case of unexpected expected expense	0.388	0.871
Challenging to make financial progress	0.496	0.738
Use of credit in case of unexpected expenses	0.444	0.854
Hard to figuring out a solution when faced financial challenge	0.555	0.821
Lack confidence in one's own ability to manage finances	0.401	0.774
Worry about running out of money in future	0.332	0.891
Overall Cronbach alpha of the Scale		**0.917**

Cronbach alpha for the FSE scale is 0.917, and the item to total correlation ranges from 0.332 to 0.555, which are far above the bench mark requirement (0.70 and 0.30 respectively) suggested by Nannully (1978), the reliability of the scale is ensured. Five point Likert's Scaling is used for the measurement of FSE. Average FSE of each respondent is calculated by applying the weighted average method. Male (2.70) and female do not have significant difference in respect of average financial self efficacy. Since education is expected to play a significant role in financial self efficacy, average FSE based on the level of education is presented:

Table: 4 Average FSE based on the Level of Education

Level of Education	Mean FSI	Std. Deviation
Below SSLC	2.3712	.64433
SSLC	2.8137	.62606
Plus Two	2.9127	.60923
Diploma	2.8167	.81062
Degree and above	3.1970	.61832
Total	2.7716	.69043
Significance value	**.011**	

Financial self efficacy is the mental capability of a person to manage financial affairs in a positive manner so that he/she should take financial decisions anticipating a bright future. People with high level of financial efficacy will be positive, forward looking and will manage money in a wise manner. But low level of financial efficacy will lead a person to be pessimistic and will not react positively to real life situations. Decisions taken such people will not yield positive result. Maximum possible score for FSI in this study is limited to 5 and the minimum is 1. The overall average score of FSE of the respondents is 2.77 with a standard deviation of .69, indicates that the respondents have an above normal self efficacy. The efficacy based on education very strongly reveals that people with better education have better level of efficacy and vice versa. ANOVA is used to test the significance of difference in average FSE between respondents belonging to different educational background. The results of the test confirm the significance of difference in FSE based on education.

Impact of the Level of Financial Inclusion on FSE

The efforts of the policy makers and regulators in the financial markets to include more and more people into the official channel by providing low cost or cost free services can be said to be successful only when the marginalised and low income community start using such basic facilities and their by improve their standard of life. Low cost, risk less financial products and services may improve the confidence of the poor to take positive financial decisions. This behavioural change may improve the level of financial self efficacy. Hence the researchers propose the following hypothesis for validation:

H_0: The use of numerous financial products by individuals being a beneficiary of financial inclusion programmes likely to enhance individuals' financial efficacy.

The dependency of FSE on the level of financial inclusion is tested with the help of regression.

Table: 5 Summary Statistics

R	Adjusted R Square	Std. Error	Durbin Watson
.472[a]	.213	.6127	1.652

a. Predictors: FII
b. Dependent Variable: FSE

Table: 6 ANOVA – Regression Model Fitness

	Sum of Squares	df	Mean Square	F	Sig.
Regression	8.480	1	8.480	22.591	.000[a]
Residual	29.656	79	.375		
Total	38.136	80			

Value of R represents the correlation between the variables under the study. Regression analysis is meaningful only when the dependent and independent variables are correlated significantly. Coefficient of determination (R Square) indicates the impact of independent variable (financial inclusion) on the dependent variable (FSE). R square (.213) indicates that 21.3 per cent change in the FSE can be explained due to the change in the level of financial inclusion of the people. The ANOVA table shows the significance of the model proposed by the researchers. The significance value (.000) indicates that the model is good for explaining the relationship between financial inclusion and the level of financial efficacy of people.

Index of Credit Behaviour

Based on the various credit related behavioural characteristics, an Index of Credit Behaviour (ICB) is constructed by the researchers to express the positive and negative credit behaviour. Five different questions related to the credit behaviour of the respondents, namely, availing loans from private financiers, delay in repayment of loans take, default in repayment of loans, make use of the loans for productive purposes, and utilising the amount for the purpose for which the loan is granted. Positive and negative responses were assigned with weights of 10 and -10 respectively. Hence the CBI ranges from -50 to 50 indicating the negative or positive credit behaviour of the respondents. The table given below shows the credit behaviour of the respondents.

Table: 7 Descriptive Statistics regarding the Credit behaviour

Characteristics of Sample	Mean Index	Std. Deviation	Min. Index	Max. Index
Age: Up to 35	0.967	32.59	-50	50
36 - 55	8.18	22.70	-50	40
Above 55	16.47	23.17	-30	50
Male	3.40	27.69	-50	40
Female	11.62	26.51	-50	50
Member of SHG	7.56	27.36	-50	50
Non SHG Member	6.75	27.58	-50	50

As per the methodology developed by the researchers for constructing the index of credit behaviour, the maximum possible index is 50 and the least possible value is -50. This simply means that there are the chances of people with negative or positive credit behaviour. The index calculated in case of all the respondents is presented on the basis of age, gender and membership in SHGs. The age wise average indices reveals that the youngest group of respondents have the least (0.967) average score with the highest standard deviation. This minimum index indicates that they may turn to negative behaviour within a short period of time. The average index is the maximum in case of respondents belonging to the 'above 55' category. Credit behaviour of some respondents 'up to the age of 55 years' are extremely negative (index -50). The 'above 55' category of respondents have a comparatively better credit behaviour as compared to other age groups due to better average index and minimum standard deviation. Male and female also differ in respect of credit behaviour. Female respondents have better positive credit behaviour (11.62) than their counterparts (3.40).

Influence of Financial Inclusion and Financial Efficacy on Credit behaviour

Knowledge, access, and utilisation of financial services and products creates positive attitude towards financial matters. Improved knowledge and increased use of financial services enable a person to develop confidence to deal with more financial transactions with care caution. When a person is able deal with financial matters positively, his/her financial efficacy will improve and he/she will be able to take better decision regarding management of money. Higher the level of financial efficacy, better will be the financial behaviour of the individual. Hence the researchers propose the following hypothesis:

$H_{0:}$ Credit behaviour of the low income households depends on the level of inclusiveness and financial efficacy.

Multiple regression analysis is used for testing the dependency of credit behaviour on the level of financial inclusion and the degree of financial efficacy.

Table: 8 Summary Statistics

R	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.524[a]	.256	23.55460	1.192

Table: 9 ANOVA - Significance of the Model

	Sum of Squares	df	Mean Square	F	Sig.
Regression	16371.012	2	8185.506	14.753	.000[a]
Residual	43275.902	78	554.819		
Total	59646.914	80			

a. Predictors: FSI, Inclusion Index

b. Dependent Variable: Credit Behaviour

Table: 10 Significance of Coefficients

	Standardised Beta	t	Sig.	Tolerance
(Constant)		-4.071	.000	
Inclusion Index	-.252	-2.300	.024	.778
FSE	.593	5.424	.000	.778

Correlation between the dependent variables (level of financial inclusion and financial efficacy) and the independent variable (credit behaviour) is 0.524and the coefficient of determination is (R square) 0.256. This indicates that 25.6 per cent changes in the credit behaviour of the marginal labourers is due to their level financial inclusiveness and financial efficacy. The results of the ANOVA test reveal that the proposed model is highly significant (sig. 0.00). The coefficients table shows the standardized beta and the significance values. The significance values in respect of both the independent variables are lower than the cut-off point (.05), both the variables are significantly influencing the credit behaviour. Since it has already been established that financial efficacy depends on the level of financial inclusion, it is now clear that inclusiveness of poor people can contribute towards financial efficacy as well as financial behaviour. But, close examination of the standardized beta coefficient reveals that financial inclusion is inversely influencing the credit behaviour where as financial efficacy is positively influencing it. This negative association is not in tune with the theoretical relationship between the variables under study. Hence, further study is inevitable to establish reasons for the negative relationship between the financial inclusion and the credit behaviour in Kerala.

Conclusion

Credit behaviour of individuals can have its impact on the cost, risk and availability of credit. Positive credit behaviour of the households motivates the bankers to lend money to households as, the borrowers make prompt payment and they utilise the credit facility for some productive purposes. But on the other hand, negative credit behaviour of the borrowers will result in increased cost of borrowings and the risk of trapped in debt. The study tried to identify the role of financial inclusion efforts of the RBI and the government on the financial self efficacy and in turn the impact of both these variables on the credit behaviour of marginal labourers. For this purpose the researchers have developed an index of financial inclusion and index of credit behaviour. The study established that both the level of financial inclusion and the financial self efficacy are significantly influencing the credit behaviour of the labourers.

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