



# THE SIGNIFICANCE OF FINANCIAL LITERACY FOR CONSUMER PROTECTION: A STUDY OF BANK CUSTOMERS IN DAKSHINA KANNADA DISTRICT

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## ABSTRACT

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*Awareness of available financial services from formal financial institutions is essential. Creating awareness for customers on products and services of financial institutions is called financial literacy. The term financial literacy was used when the financial inclusion concept emerged in the year 2005. Even though having a good number of banks and banking institutions, most of the people in India were excluded from formal financial services because of a lack of awareness and financial literacy. They depend upon money lenders where they get money when they needed and not had more formalities to access their monetary needs. People need to be given knowledge of formal banking facilities and brought them into formal banking penetration (Dsouza S. 2017). Financial literacy is not only creating awareness on available banking services, it also creates awareness of consumer rights and responsibilities. This paper is to study.....*

*This paper analyses financial literacy among consumers and also examine the impact of financial literacy on consumer protection. A random sample of 106 customers was chosen as the respondents for the study. A self-administered questionnaire was used for the collection of primary data and distributed to the random samples. The result shows that most of the respondents are unaware of the grievance redressal system exists for banking customers. The study also explains the problems faced by consumers, awareness level on consumer rights, and available banking services.*

**KEYWORDS:** Financial Literacy, Banking Products and Services, Consumer Rights and Protection

## INTRODUCTION

The practice of protecting consumer interest during buying of goods and services is called consumer protection. Unfair trade/business practices in the workplace result in consumer exploitation. The consumer must know their rights and responsibilities and also aware of the market conditions where they can safeguard themselves from such exploitations. Especially in the banking sector consumer must aware of all norms and policies. Banks also mislead consumers for their operational objectives like Maharashtra Co-operative banks (Akshay Ramesh and

Gokul, 2019)<sup>1</sup>. The number of fraudulent activities in the name of banks was also reported many times. Around 84545 fraud cases involving about Rs. 1.85 crore were reported by scheduled commercial banks (The Economic Times, 2020). Total 2,14,480 complaints were received from July 2019 to March

<sup>1</sup> <https://www.mondaq.com/india/dodd-frank-consumer-protection-act/865580/present-status-of-consumer-protection-in-indian-banking-sector>

2020, in that, SBI received the highest number of 63, 259 complaints, HDFC received 18764 complaints, ICICI bank received 14,582 complaints, Panjab National Bank Received 12,469 complaints, Axis bank received 12,214 complaints (The Economic Times, 2020). It is very much needed for consumer protection in the banking sector in India.

The modern economy of a country requires contribution from its overall population. Most of the developing countries have only 60% to 70% of the population involved in formal banking activities. Access to basic banking services is significant in the modern economy. The world population uses financial services for essential transactions and savings. Access to financial services results in the socio-economic development of the individual. Banks and banking services increase the purchasing power of an individual and promote inclusive growth.

Nationalization of banks and innovations in banking sectors like small financial institutions, Micro Financial Institutions (MFIs), Cooperative Societies, Business Correspondents/Banking Mitras, Business facilitators, etc., playing a significant role in financial inclusion and financial literacy activities. People in India need to be promoted for more and more formal financial activities which are initiated by the government with different strategies like, the deposit of subsidies, pension amount, and other monetary benefits directly to the bank accounts of the beneficiaries.

The exploitation of customers by banks and other financial institutions was reported more in the past few years. Banks approach customers with different credit products and other financial services. The rise in irresponsible lending practices over-indebtedness of consumers reported. The excessive lending under the housing scheme resulted in the financial crisis of 2008.

Markets will not work on their own (Rodrik, 2007). There is need of institutions which regulate markets, compensate for losers and provide the safety grids. Without regulatory bodies markets neither be sincere or, for that matter, efficient. To promote financial stability effective consumer protection is required. There are reforms at the national and international level for protecting consumer rights. Consumers must be informed on products and services which allows them to take right decisions. Consumer protection measure if there are any disputes when any transactions go wrong. Consumers must have access to the resource mechanism to solve their issues. The justification for regulating financial market is "Protection of consumers from the loss of investments, scams and misrepresentation, biased treatment and inadequate information, unskilled employees of financial services

providers and unenviable discrimination" (George Benston, 1999).

A person who hires or avail any kind of services for consideration from banking institution is called consumer. Hiring locker According to the act, "Consumer", of the Act, includes a person who hires or avails of any service for consideration. Therefore, in banking transactions, a customer of a bank who has a bank account with the bank or a person who purchases a bank draft hires locker facility or obtains bank guarantee from a bank are all "consumers" and can prefer complaints under the Act for "deficiency in service" on the part of the bank or for "restrictive trade practice" or "unfair trade practice" adopted by the bank.

### **Need for Consumer Protection**

It arises from an imbalance of power, information and resources between consumer and the financial institution, placing consumers at a disadvantage, Individual retail consumers find difficult or costly to obtain sufficient information regarding their financial purchases, consumers find difficult to assess the relevance of the complex financial products even all information disclosed to them.

By giving clear and specific information to its customers and providing adequate mechanisms to resolve the disputes of customers, financial institutions can deliver fair and honest services and protect the consumer interest. Empowering consumers with information, basic rights and responsibilities is important for market discipline in the financial sector. Financial Institutions regulated to provide better products and services rather than taking advantage of financially illiterate consumers.

Consumer protection by establishing sound and transparent norms for delivery of financial services and accountability, financial institutions build demand for good governance and strengthen business standard. Creating awareness on financial products and services helps consumers to understand the risk return associated with such products and they can understand how to optimize their financial wealth. Financial literacy protects consumer rights and promotes financial inclusion, promotes customers to access financial services and builds consumers' trust.

Financial literacy enterprises for giving knowledge, skill and confidence to understand and analyze the information they receive and evaluate the risks and rewards inherent in the financial products and services. In India Reserve Bank of India plays significant role in establishing a strong and effective control over all financial institutions and issues guidelines to provide transparent banking services to the public. Banking and

financial institutions are answerable and coordinate with the Reserve Bank of India, Customer service Departments, Customer Education Departments,

Customer Protection Departments and Banking Ombudsman, etc.

**Table no. 1**

**Areas of major Consumer Protection concern by level of financial sector development**

Particulars	High-Income Countries	Middle-Income Countries	Low-Income Countries
Remittances / Payments	NA	NA	A
Micro-Finance	NA	NA	A
Micro-Credit	NA	NA	A
Consumer Credit	A	A	A
Data Protection	A	A	A
Debit/Credit Cards	A	A	A
Life Insurance	A	A	NA
Private Pensions	A	A	NA
Investment Funds	A	A	NA
Securities	A	A	NA
Exotic Mortgages	A	NA	NA

Source: world bank (2010)

The above table states that, low-income countries have major concern on remittances and non-bank payment systems whereas high-income countries have major focus on investment funds, exotic residential mortgage (Rutledge, S.L 2020).

India, a low-income country is having RBI which look in to all kind of banking issues and protects consumer interests with its rules and regulations. RBI plays dynamic role in protecting and creating consumer protection environment. The major roles of RBI in protecting consumer interest are:

- a. Setting up of a Consumer Redressal cell which helps consumers to solve their issues
- b. Creation of Consumer Education and Protection department (2006) for financial literacy of consumers
- c. Setting up of the Banking Codes and Standard Boards of India (BCSBI) which is an autonomous body for the promotion of loyal to self-imposed codes by banks for committed customers services
- d. Established Banking Ombudsman (1995) which strengthen the institutional mechanism for dispute resolution. It is an alternative dispute redressal mechanism for the resolution of disputes between a bank and its customers.

### LITERATURE REVIEW

Amruth Raj, (2013), identified that, the customer satisfaction provides a leading indicators of consumer purchase intentions and loyalty. The most frequently used customer satisfaction indicators of market perception used for the study. It states that, customer services are the provision of services to customers before, during and after a purchase of products and services.

Turban et al., (2002), stated that, "Customer service is a series of activities designed to enhance the level of customer satisfaction which makes customer to feel that particular product or service has met their expectation".

Sharma and Sharma, (2014), by analyzing customer delight in urban customer banking, it identified that, the customer was satisfied with loan facilities, bank environment, routine work procedures, location, interest rates but its also identified that, customers were dissatisfied with loan formalities and promotion / awareness Programmes of banks.

Gupta, (2014), internet banking playing major role in the banking sector. The behavior of the customers towards internet banking and conventional banking studies and it is identified that internet banking was easier and speedier than conventional banking. The accuracy and confidential level of the banking activities

in internet banking need to be taken care and considered as most important factor for observation. Natalie Gallery, (2010), stated that, financial literacy focuses on basic money management tools such as budgetting, savings, investing and insurance. Its not necessity to consider macro-economic tools of financial literacy that affect individual decision making

### OBJECTIVES OF THE STUDY

The objectives of the study are as follows

1. To study the socio-demographic factors of the respondents.
2. Level of awareness on the consumer rights
3. Problems faced while using the banking services products
4. Impact of Source of information on consumer awareness on consumer protection/exploitation

### RESEARCH METHODOLOGY

The present study on the topic, "Impact of financial literacy on consumer protection with reference to bank customers in Dakshina Kannada district" is an empirical work conducted using quantitative data collected from the respondents. Following research methods are used to draw scientific results and fulfill the research objectives.

- a. **Sample size:** The sample size is confined to 106 people having bank account from Mangaluru city. Simple random sampling was used to select the respondents.
- b. **Source of data:** Both primary and secondary data were used in this study. Primary data are collected directly from 106 people in Mangaluru city through self administered questionnaire. Secondary data are collected from research articles, published documents in various journals and websites.
- c. **Statistical tools used for analysis:** mean, standard deviation and one sample t-test were used to analyze the data.

### ANALYSIS AND INTERPRETATION SOCIO DEMOGRAPHIC FACTORS OF THE RESPONDENTS

The study on Socio demographic factors of the respondents is very essential to understand how the socio-economic factors are related to the financial literacy and consumer protection. The socio-demographic factors of the respondents are presented below.

The table (no. 2) depicts the socio demographic factors of the respondents. For the study purpose respondents' gender, marital status, age, educational qualification, place of living, occupation and monthly income is considered. The study identifies that, Regarding the gender of the respondent's majority of the 54.72 percent respondents are female and the rest 45.28 percent are male. As civil status of the respondents is considered majority of respondents are single i.e. 66.98 percent; 1.88 percent respondents are single parent and 31.14 percent are married. Considering the age of the respondent's majority are i.e., 47.16 percent fall under the age group of below 20 years followed by 19.82 percent respondents are in the age group between 21-30 and 31-40. Only 13.2 percent fall under the age group of above 40 years. It is also observed from the above data that 60 percent of the respondents are graduates, 20.95 percent of the respondents are post graduates, 13.34percent of the respondents have completed their high school and the rest 5.71percent have other qualifications. Table also states that majority of the respondents live in urban area i.e., 83.02 percent and the rest 16.98 percent live in rural area. Regarding occupation of the respondents 18.1 percent of the respondents work for private firms, 14.28 percent of the respondents are self-employed or have a business, 0.95 percent respondents are retired and 66.67 percent of the respondents have other occupations. As monthly income of the respondents is identified that 48.12 percent of the respondents have monthly income below 10000, 21.7 percent have above 30000, 18.86 percent of the respondents have income between 10001-20000 and the rest 11.32 percent have income between 20001-30000.

**Table No. 2**  
**Socio Demographic factors of the Respondents**

Factors	Frequency	Percentage
<b>Gender</b>		
Female	58	54.72
Male	48	45.28
<b>Civil Status</b>		
Single	71	66.98
Married	33	31.14
Single parent	2	1.88
<b>Age</b>		
Less than 20	50	47.16
21-30	21	19.82
31-40	21	19.82
41 and Above	14	13.20
<b>Education</b>		
High school	14	13.34
Graduate	63	60
Post graduate	22	20.95
Other	6	5.71
<b>Place of domicile</b>		
Urban	88	83.02
Rural	18	16.98
<b>Occupation</b>		
Private	19	18.10
Self-employed/Business	15	14.28
Retired	1	0.95
Other	70	66.67
<b>Monthly Income</b>		
Below 10000	51	48.12
10001-20000	20	18.86
20001-30000	12	11.32
Above 30000	23	21.70

Source: Primary Data

### Customers Banking Activities

Accepting deposits like; Basic Savings Bank Account, Fixed Deposits, Current Accounts, Recurring Deposits and Lending loans for different purpose are the products offered by the banks. The study conducted to analyze the purpose of customers to visit banks. As per the sample respondents, as showed in table (no.3) most of the respondents opened savings bank deposit account i.e., 83.01 percent of respondents. Which is followed by fixed deposits, current accounts and recutting deposits. The study identified that only 1.89

percent od respondents access loan facilities from banks. Reason for the most of the respondents having savings account is basic requirement and its mandated for access of most of the government facilities and also people have the habit of going for formal banking activities. The study identified that, 32.13 percent of respondents using banking services from past 1-5 years and 24.48 percent of respondents accessing banking services from past one-year 43.39 percent of respondents using banking services from past 5-15 years.

**Table no. 3**

Types of accounts the preferred by respondents			Status of usage of the bank services by the respondents		
Type of accounts	N	%	Status of usage	N	%
Savings	88	83.01	Less than one year	27	24.48
Current	6	5.67	1-5 years	33	32.13
Fixed deposits	8	7.54	5-10 years	25	23.58
Recurring deposits	2	1.89	10-15 years	10	9.43
Loan	2	1.89	More than 15 years	11	10.38

Source: Primary Data

To make easy access of banking products and reach customers with brick less banks banking sector is innovated with Mobile banking, Net banking, ATM services. Customer friendly branch banks also makes major difference in customers access to banking products and services. The study shows that (table no.4) bank branches are most occasionally and rarely used by customers. ATM service is frequently accessed by the customers. Only 40.57 percent of respondents use mobile banking facility. Only 32.08 percent of

respondents use net banking services. The study identified that, user-friendly and easily accessible ATM and mobile banking were the most accessed banking services. Awareness on internet banking is required for the customers. Branch banking is avoided by customers because time consuming process and most of the respondents are savings accounts holders so for the savings accounts frequent visit of bank branch is also not required.

**Table no. 4**  
**Frequency of using banking services every month**

Particulars	Frequently		Occasionally		Rarely	
	N	%	N	%	N	%
Branch banking	22	20.75	42	39.62	42	39.62
ATM	55	51.89	36	33.96	15	14.15
Mobile banking	43	40.57	19	17.92	44	41.51
Net banking	34	32.08	19	17.92	53	50.00

Source: Primary Data

**Level of Awareness on the Consumer Rights**

The table no.5 depicts the result of level of awareness about the consumer rights. We have considered six Customer Rights indicators for our study to test there is any significant difference in level of awareness among customers. The customer right indicators are listed in the above table and decoded as R1, R2, R3, R4, R5 and R6. The above table describes that the indicators that is R1 and R6 have their mean value less than 2 (test value) which mean the customers unaware on customer rights such as right to choose and right to be safety.

Whereas the indicators such as R2, R3, R4, and R5 have their mean value more than 2 that is 2.05, 2.05, 2.10 and 2.08 respectively which means that customers somewhat aware on customers rights such as right to be heard, right to be informed, right to seek redressal and right to consumer education. The significance value of one sample t-test for each indicator shows greater than 0.05. Which shows that the there is no significant difference on level of awareness about the consumer rights.

**Table no. 5**  
**One-Sample Statistics**  
**Level of awareness on the consumer rights**

Consumer Rights	N	Df	Mean	Std. D	Std. E	T	Sig. (2-tailed)
Right to Choose (R1)	106	105	1.99	1.073	.104	-.090	.928
Right to be heard (R2)	106	105	2.05	1.018	.099	.477	.634
Right to be Informed (R3)	106	105	2.07	1.044	.101	.651	.516
Right to seek redressal (R4)	106	105	2.10	1.059	.103	1.008	.316
Right to consumer education(R5)	106	105	2.08	1.052	.102	.831	.408
Right to be Safety (R6)	106	105	1.92	.987	.096	-.886	.378

Source: Primary Data

Table no. 6 exhibits the result of the problems faced by respondents during the access of banking services. To analyse problems faced by the customers during access of banking services it was considered six indicators namely P1, P2, P3, P4, P5, P6, P7, and P8 which are shown in the above table. The banking services include General Banking, Deposit and Withdrawal, Loans, ATM services, Debit and Credit Cards, Customer Services. The above table shows the mean value, standard deviation, and significance value of one sample t-test at a 5 percent significance level for each statement. The result shows that response on banking

services P1, P2, P3, P4, P5 and P6 is identified that customers occasionally face problems while using those banking services with the mean value 2.34, 2.38, 2.95, 2.42, 2.51 and 2.42 respectively (>test value 2). The overall results for the above indicators have a significance value of 0.000 which is less than 0.05 at a 5 percent level of significance. Since the indicator wise one-sample t-test also gives the significance value less than 0.05. It can be concluded that there is significant difference in the problems faced by customers during access of banking services.

**Table no. 6**  
**One-Sample Statistics**  
**Problems faced while using the banking services products**

Problems Faced during	N	Df	Mean	Std. D	Std. E	T	Sig. (2-tailed)
General Banking (P1)	106	105	2.34	.893	.087	3.915	.000
Deposit and Withdrawal (P2)	106	105	2.38	.951	.092	4.087	.000
Loans (P3)	106	105	2.95	.844	.082	11.626	.000
ATM services (P4)	106	105	2.42	.975	.095	4.385	.000
Debit and Credit Cards (P5)	106	105	2.51	1.035	.101	5.067	.000
Customer Services (P6)	106	105	2.42	.935	.091	4.572	.000

Source: Primary Data

The table no. 7 depicts the result of source of information about consumer exploitation/ consumer protection. Newspaper, magazine books, radio, television, website, family and friends and professional association are the seven different sources where consumer/customer will get information on consumer protection and exploitation. The study is conducted to analyze which source of information have more significant impact. The table no. describes that, the source of information that is magazine books, radio,

professional association have their mean value greater than 2 (test value) which means these sources are not having major impact on the consumers awareness level whereas newspaper, television, website and family friends are the major source of information as the mean value is less than 2. The significance value of the one sample t-test for each indicator shows less than 0.05. that means there is significant impact of different sources of information on consumer awareness level.

**Table no. 7**  
**One-Sample Statistics**  
**Impact of Source of information on consumer awareness on consumer protection/exploitation**

Source of Information	N	Df	Mean	Std. D	Std. E	t	Sig. (2-tailed)
Newspaper	106	105	1.96	.985	.096	-5.621	.000
Magazine books	106	105	2.30	.948	.092	-2.152	.034
Radio	106	105	2.75	1.161	.113	2.258	.026
Television	106	105	1.97	.961	.093	-5.662	.000
Website	106	105	1.69	.844	.082	-9.902	.000
Family Friends	106	105	1.76	.857	.083	-8.841	.000
Professional Association	106	105	2.21	1.084	.105	-2.777	.006

Source: Primary Data

### MAJOR FINDINGS OF THE STUDY

The major findings of the study reveal the socio-demographic profile of the sample population, access of banking products and services by the customers, level of awareness on consumer rights, the problems

faced by the customers and the sources of information which impacts on consumer awareness level.

The study identified that majority of the respondents are youngsters and who are not married and ear less

than Rs. 10,000. Most of the respondents are youths so it is clearly described that they access only savings services from the banks. The ATM and net banking are the major services accessed by the customers. It is clear that promotion of cash less economy will be possible if more awareness created on internet banking and mobile banking services.

The study also identified that most of the customers are not aware about consumer rights it is required providing more and more awareness on consumer rights and responsibility.

## CONCLUSION

Most of the respondents are ignorant of their right and get exploited by the banks. Financial literacy and consumer protection in banking sector will enhance financial stability and increase customer welfare. In this study, we can see that most of the people are aware about their basic consumer rights but they are ignorant about the ombudsman act in banking. RBI's efforts in upholding the consumer protection in the banking sector can be yielded only if the people are made aware of grievance redressal system but in this study, we can see that majority of the respondents are not aware about the banking ombudsman act. For which, RBI as well as central government of India should take some policy measures for the welfare of the customers.

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