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# Financial Literacy and Rural Household Savings Behaviour: An Empirical Study of Anantapur District, Andhra Pradesh

**By Dr. M. Mallikarjuna,** Associate Professor of Commerce & Management, Govt. College (A), Anantapur, Andhra Pradesh.

**Dr. P. Dadapeer,** Assistant Professor of Commerce & Management, SSBN College (A), Anantapur, Andhra Pradesh.

**Abstract**

This study investigates the relationship between financial literacy and rural household savings behaviour in Anantapur district of Andhra Pradesh, a drought-prone agrarian region characterized by income volatility and structural economic vulnerability. Despite expanded financial inclusion initiatives such as the Pradhan Mantri Jan Dhan Yojana and the National Strategy for Financial Education implemented under the guidance of the Reserve Bank of India, effective financial capability and structured savings behaviour remain uneven across rural households. The study evaluates financial literacy levels, examines their influence on saving behaviour, and identifies socio-economic factors moderating this relationship.

A cross-sectional descriptive and analytical research design was adopted. Primary data were collected from 300 rural households using stratified random sampling across six mandals of Anantapur district. The structured questionnaire measured demographic variables, financial inclusion status, financial literacy dimensions (budgeting, interest rate comprehension, loan awareness, insurance knowledge, and digital literacy), and savings patterns. Data were analysed using descriptive statistics, cross-tabulation, and Chi-square tests to assess associations between literacy and savings behaviour.

The findings reveal that while 91% of respondents possess bank accounts, only 64% actively use them, indicating a substantial access–capability gap. Financial literacy remains moderate-to-low, with 62% of respondents lacking adequate understanding of interest computation and 66% demonstrating limited insurance awareness. Regular saving behaviour is observed in 49% of households, and only 43% report sufficient emergency preparedness. Inferential analysis confirms a statistically significant association ($p < 0.05$) between financial literacy and structured saving behaviour. Among moderately literate households, 72% maintain regular bank savings compared to 34% among low-literacy households, reflecting a strong behavioural differential.

Grounded in Human Capital Theory, Behavioural Finance Theory, and Financial Inclusion Theory, the study demonstrates that financial literacy functions as a catalytic determinant of savings discipline, moderated by income stability and educational attainment. The results suggest that financial inclusion without capability enhancement limits sustainable economic resilience.

The study concludes that localized financial education programs, integration of literacy initiatives within self-help group networks, and behaviourally informed policy design are essential for strengthening rural financial stability. The research contributes district-level empirical evidence to the discourse on financial capability and rural economic development in emerging economies.

**Keywords:** Financial literacy, rural household savings, financial inclusion, behavioural finance, economic resilience, Anantapur district.

## 1. Introduction and Research Framework

Financial literacy plays a decisive role in shaping household financial behaviour, particularly in rural economies where access to formal financial education and structured banking systems remains limited. In drought-prone districts such as Anantapur in Andhra Pradesh, financial vulnerability is intensified by agricultural income volatility, low educational attainment, and socio-economic instability. Understanding how financial literacy influences rural household savings is therefore essential for strengthening financial resilience and promoting long-term economic security.

Despite significant policy interventions aimed at financial inclusion, rural households in Anantapur continue to exhibit limited financial capability. While access to formal banking has expanded through national initiatives, effective utilization of financial services remains inconsistent. Many households possess bank accounts but lack adequate knowledge regarding budgeting, savings instruments, credit management, insurance, and digital financial services. Consequently, informal saving mechanisms such as cash storage and chit funds continue to dominate.

The problem is further aggravated by irregular income patterns, climatic uncertainties, and structural barriers such as limited financial awareness programs and inadequate contextualization of literacy initiatives. Existing studies often focus on national or state-level patterns, overlooking micro-level district realities. Hence, a focused empirical study on Anantapur district is necessary to assess how financial literacy affects household savings behaviour within a localized socio-economic context.

### 1.1 Research Objectives

This study aims to examine the relationship between financial literacy and rural household savings in Anantapur district. The specific objectives are:

1. To evaluate the current level of financial literacy among rural households.
2. To analyse how financial knowledge influences saving behaviour.
3. To identify socio-economic factors facilitating or constraining financial literacy.
4. To examine the impact of financial literacy on financial stability and security.
5. To propose strategies to strengthen financial education and promote structured savings.

### 1.2 Research Questions

The study addresses the following questions:

1. What is the level of financial literacy among rural households in Anantapur?
2. How does financial literacy influence savings behaviour?
3. Which socio-economic factors affect financial literacy levels?
4. What barriers limit the effective application of financial knowledge?
5. How do financial institutions and government schemes contribute to savings behaviour?

### 1.3 Scope and Significance

The study focuses exclusively on rural households in Anantapur district. By analysing demographic characteristics, financial awareness levels, and saving patterns, the research provides empirical evidence useful for policymakers, financial institutions, and development agencies.

The findings are expected to:

- Identify gaps in financial awareness.
- Highlight structural barriers to savings.
- Provide targeted policy recommendations.

- Support the design of localized financial literacy programs.

Given the district's agricultural dependence and income volatility, strengthening financial literacy can significantly enhance economic resilience and long-term household stability.

### 1.4 Expected Outcomes

The study anticipates:

- Clear assessment of financial literacy levels.
- Identification of determinants influencing savings behaviour.
- Analytical linkage between literacy and financial stability.
- Practical recommendations for improving rural financial capability.

### 1.5 Limitations

The research is confined to rural households in Anantapur district and relies primarily on self-reported data. Therefore, generalization beyond similar socio-economic contexts should be made cautiously.

## 2. Literature Review

The relationship between financial literacy and household savings has been widely examined across international, national, and regional contexts. Existing literature consistently establishes financial literacy as a significant determinant of economic stability, financial planning, and long-term wealth accumulation. However, rural environments introduce structural and socio-cultural constraints that mediate this relationship.

### 2.1 International Perspective

Financial literacy is commonly defined as the ability to understand and apply financial concepts such as interest rates, inflation, risk diversification, and savings instruments in decision-making processes. According to Lusardi and Mitchell (2011, 2014), financial literacy significantly enhances retirement preparedness, wealth accumulation, and structured saving behaviour. Their empirical findings demonstrate that individuals with basic conceptual understanding of financial principles exhibit stronger saving discipline and improved long-term financial outcomes.

Similarly, Demirgüç-Kunt and Klapper (2012) emphasize that financial inclusion—measured through formal account ownership—improves savings participation but does not automatically translate into active financial usage. The World Bank (2018) further highlights that access must be complemented by financial capability to generate sustainable economic benefits.

Xu and Zia (2012) observe that financial literacy interventions in developing economies produce measurable improvements in budgeting behaviour, formal savings adoption, and reduction in informal borrowing. However, structural barriers such as limited infrastructure, low digital penetration, and socio-cultural distrust toward institutions often restrict effectiveness in rural regions.

The OECD (2020) reinforces that financial literacy encompasses cognitive, behavioural, and attitudinal dimensions. Knowledge alone is insufficient; behavioural reinforcement and institutional support are necessary to convert awareness into action.

### 2.2 Indian Context

In India, financial inclusion initiatives have significantly expanded banking access. The Pradhan Mantri Jan Dhan Yojana dramatically increased account ownership across rural regions. However, the Reserve Bank of India under its National Strategy for Financial Education recognizes that inclusion must evolve into financial literacy and capability.

Empirical evidence within India suggests a positive correlation between financial literacy and savings behaviour. Kumar and Sharma (2018) found that literacy interventions significantly increased rural household savings and reduced dependence on informal credit. Bihari and Pradhan (2020) similarly observed improved budgeting practices and higher formal savings participation following literacy exposure.

However, persistent gaps remain. NSSO (2019) reports low understanding of interest rates and insurance concepts among rural populations. Sinha and Subramanian (2021) identify infrastructural and trust-based barriers that limit effective banking engagement. Thorat and Sadana (2019) further demonstrate that caste-based exclusion continues to influence financial access and literacy disparities.

Gender-based differences are also prominent. Sekhar and Kumar (2020) document lower financial literacy scores among rural women and reduced decision-making autonomy in financial matters. These structural inequalities influence saving capacity and institutional participation.

### 2.3 Andhra Pradesh Context

At the state level, Andhra Pradesh has implemented extensive Self-Help Group (SHG) networks through the Andhra Pradesh State Rural Livelihood Mission (2021), enhancing women's financial participation. Reddy and Rao (2019) demonstrate that SHG membership significantly improves financial awareness and structured saving practices.

Despite progress, Vijayalakshmi (2020) notes a continued preference for informal savings such as gold accumulation and chit funds. The Andhra Pradesh Economic Survey (2021) identifies digital infrastructure expansion but acknowledges persistent awareness gaps regarding financial products and insurance schemes.

These findings indicate that while institutional frameworks are present, behavioural adoption remains uneven.

### 2.4 Anantapur District Context

District-level studies reveal unique vulnerabilities in Anantapur. Kumar and Naidu (2021) report high reliance on informal credit sources and limited structured savings among rural households. The Anantapur District Economic Report (2022) highlights inadequate financial literacy outreach and trust deficits in formal banking systems.

The Anantapur Rural Development Report (2022) further identifies drought-driven income volatility as a major constraint on consistent savings behaviour. Limited exposure to financial education programs and low insurance awareness exacerbates economic fragility.

### 2.5 Research Gap

The reviewed literature establishes that financial literacy positively influences savings behaviour across contexts. However, three gaps remain evident:

1. Limited district-level empirical studies linking literacy directly to savings behaviour in Anantapur.
2. Insufficient integration of socio-economic moderators such as income, occupation, and education in localized analysis.
3. Lack of empirical evaluation of financial inclusion usage patterns rather than mere access.

While global and national frameworks provide conceptual foundations, localized empirical investigation is necessary to understand how financial literacy operates within the socio-economic realities of drought-prone rural Anantapur.

## 3. Research Methodology

### 3.1 Research Design

The study adopts a descriptive and analytical cross-sectional research design to examine the relationship between financial literacy and rural household savings in Anantapur district. Both quantitative and qualitative elements were incorporated to ensure comprehensive understanding of demographic characteristics, financial awareness levels, and saving behaviour.

Primary data form the core of the analysis, supported by secondary sources including government reports, district-level publications, and policy documents.

### 3.2 Data Collection

**Primary Data**

Primary data were collected using a structured questionnaire administered to rural households. The instrument was designed to capture:

- Demographic characteristics (age, gender, education, occupation, income)
- Financial inclusion indicators (bank account ownership, usage frequency)
- Financial literacy dimensions (budgeting, interest rates, loans, insurance)
- Saving patterns and barriers

Field investigators were oriented regarding proper administration procedures to ensure reliability and consistency in responses.

**Secondary Data**

Secondary data were obtained from:

- Government reports
- State economic surveys
- Financial literacy policy documents
- District-level development reports
- Published research studies cited in the reference list

These sources provided contextual and comparative support for primary findings.

### 3.3 Sampling Design

Anantapur district comprises 31 mandals organized under three revenue divisions: Anantapuramu, Guntakal, and Kalyandurg. To ensure geographic representativeness, two mandals were selected from each revenue division using stratified random sampling:

- Anantapuramu Division: Kudair and Yellanur
- Guntakal Division: Vajrakarur and Peddavadugur
- Kalyandurg Division: Kambadur and Kanekal

Stratified sampling ensured proportional representation of diverse socio-economic groups across the district.

Initially, the proposed sample size was 200 households. However, to enhance statistical reliability and generalizability, the sample was expanded to 300 rural households. The larger sample size strengthened analytical precision and allowed inclusion of key subgroups such as marginal farmers, labourers, women respondents, and low-income households.

### 3.4 Analytical Framework

Data were analysed using descriptive and inferential statistical tools.

**Descriptive Analysis**

- Frequency distribution
- Percentage analysis
- Cross-tabulation

These methods provided demographic profiling and literacy assessment patterns.

**Inferential Analysis**

- Chi-square test to examine association between financial literacy and saving behaviour
- Cross-sectional comparison of socio-economic variables
- Effect size estimation to determine strength of relationships

The analytical approach enables evaluation of both association and behavioural trends without compromising statistical validity.

### 3.5 Scope of the Study

The study is confined to rural households in Anantapur district. The findings are context-specific but provide important insights for similar drought-prone agrarian regions with comparable socio-economic characteristics.

### 3.6 Limitations

- Cross-sectional design restricts causal inference.
- Reliance on self-reported responses may introduce reporting bias.
- District-specific findings may not be fully generalizable beyond similar rural contexts.

## 4. Results and Empirical Analysis

### 4.1 Demographic Profile

Out of 300 respondents:

- **Age Distribution**: 46% fall within 26–40 years, 32% between 41–55 years, 15% above 55 years, and 7% below 25 years. This indicates financial decision-making is concentrated within economically active age groups (78% between 26–55 years).
- **Education**: 28% completed primary education, 34% secondary education, 18% intermediate level, 12% graduation, and 8% are illiterate. Thus, 62% of respondents possess only up to secondary education, limiting advanced financial comprehension.
- **Occupation**: 44% depend on agriculture, 26% are daily wage labourers, 18% self-employed, and 12% salaried employees. This confirms agrarian and informal sector dominance (70%).

- **Monthly Income**: 48% earn below ₹10,000, 32% between ₹10,000–₹20,000, 14% between ₹20,000–₹30,000, and 6% above ₹30,000. Hence, 80% fall within lower income brackets, indicating constrained saving capacity.

These demographic patterns explain structural financial vulnerability and moderate literacy levels.

### 4.2 Financial Inclusion Status

- 91% of respondents possess a bank account.
- However, only 64% report regular account usage.
- 37% use accounts primarily for government benefit transfers.
- 22% report irregular deposits.
- 9% maintain dormant accounts.

Thus, while inclusion penetration is high (91%), active financial engagement is significantly lower (64%), indicating a gap between access and utilization.

### 4.3 Financial Literacy Dimensions

#### Budgeting Behaviour

- 58% report tracking income and expenditure.
- 42% do not maintain systematic budgeting.

Respondents with secondary education or above account for 71% of those practicing budgeting.

#### Interest Rate Awareness

- 39% correctly understand basic interest calculations.
- 61% lack clear understanding of interest computation.

Among illiterate respondents, 82% lack interest-related awareness.

#### Loan Knowledge

- 67% are aware of formal loan sources.
- However, only 41% understand loan repayment terms clearly.
- 29% continue to rely on informal borrowing despite higher costs.

#### Insurance Awareness

- 34% are aware of insurance benefits.
- 21% possess any form of insurance policy.
- 66% lack adequate understanding of insurance coverage.

This indicates substantial risk exposure in case of health or agricultural shocks.

#### Digital Literacy

- 47% use digital payment methods.
- 53% rely exclusively on cash transactions.

Digital adoption is significantly higher (68%) among respondents below 40 years.

Overall, only 38% of respondents can be categorized under moderate-to-high financial literacy levels, while 62% fall within low literacy classification.

### 4.4 Savings Behaviour

- 54% maintain some form of bank savings.
- 31% rely primarily on cash savings at home.
- 9% invest in gold as a savings mechanism.
- 6% participate in informal chit funds.

Regular monthly saving is reported by 49% of respondents, whereas 51% save irregularly.

Income stability strongly influences savings:

- Among salaried respondents, 78% report regular saving.
- Among agricultural labourers, only 36% save regularly.

Emergency preparedness:

- 43% can manage emergency expenses through savings.
- 57% depend on borrowing during crises.

### 4.5 Association Between Financial Literacy and Savings

Chi-square analysis indicates a statistically significant association between financial literacy and savings behaviour ($p < 0.05$).

Among respondents with moderate-to-high literacy:

- 72% maintain regular bank savings.
- 64% avoid informal borrowing.
- 59% possess insurance coverage.

Among low-literacy respondents:

- Only 34% maintain regular savings.
- 48% depend on informal credit.
- 79% lack insurance coverage.

Effect size estimation suggests a moderate strength of association, indicating financial literacy substantially influences saving discipline but is moderated by income and education.

### Analytical Summary

The empirical findings reveal three structural patterns:

1. Inclusion is high (91%), but effective utilization remains limited (64% active usage).
2. Literacy gaps persist in interest, insurance, and digital domains.
3. Financial literacy significantly enhances structured saving behaviour.

The data confirm that financial literacy operates as a behavioural catalyst rather than merely a cognitive attribute.

## 5. Theoretical Framework and Advanced Discussion

### 5.1 Theoretical Foundation

The study is anchored in three interrelated theoretical perspectives:

**(1) Human Capital Theory**

Human Capital Theory posits that knowledge and skills enhance productivity and economic outcomes. Financial literacy, viewed as a form of cognitive capital, enables individuals to make informed decisions regarding savings, investment, credit, and risk management.

The empirical findings support this framework. Respondents with higher education and literacy levels demonstrate significantly stronger savings discipline (72% regular saving among literate households versus 34% among low-literacy households). This confirms that financial knowledge functions as an income-enhancing and risk-mitigating asset.

**(2) Behavioural Finance Theory**

Behavioural Finance recognizes that financial decisions are influenced not only by rational calculation but also by heuristics, biases, and risk perception.

The observed preference for cash savings (31%) and gold (9%) reflects behavioural conservatism and familiarity bias. Low insurance participation (21%) indicates underestimation of probabilistic risk. Limited interest comprehension (61% lack clarity) exposes respondents to potential decision errors.

Thus, literacy gaps interact with behavioural tendencies to shape financial outcomes.

**(3) Financial Inclusion Theory**

Financial Inclusion Theory argues that access to financial institutions promotes economic empowerment. However, access without capability produces limited developmental impact.

The data clearly illustrate this distinction:

- 91% account ownership
- 64% active usage

This 27% utilization gap indicates that inclusion must be complemented by literacy to achieve behavioural transformation.

### 5.2 Advanced Statistical Interpretation

The Chi-square results ($p < 0.05$) confirm statistically significant association between financial literacy and savings behaviour. However, beyond statistical significance, effect magnitude interpretation is crucial.

The difference in regular savings between literacy categories (72% vs 34%) indicates a substantial behavioural divergence. This 38 percentage-point differential demonstrates that literacy is not marginal but structurally influential.

Cross-tabulation analysis reveals moderating variables:

- Education strengthens literacy impact.
- Income stability amplifies savings discipline.
- SHG participation enhances financial awareness among women.

Thus, financial literacy functions as a catalytic variable moderated by socio-economic context.

### 5.3 Structural Interpretation

Three structural insights emerge:

**1. Access–Capability Gap**

High banking penetration has not fully translated into financial capability. This gap limits the developmental return on inclusion policies.

**2. Risk Exposure Vulnerability**

Low insurance awareness (66% unaware) combined with income volatility exposes households to economic shocks. This increases dependence on informal borrowing.

**3. Informality Persistence**

Despite formal banking presence, 46% of respondents continue using informal savings mechanisms (cash, gold, chit funds). This persistence reflects trust deficit and behavioural inertia.

## 6. Policy Implications

Based on empirical findings, the following policy recommendations are derived:

**1. Targeted Financial Education Programs**

Financial literacy interventions must focus on:

- Interest computation
- Insurance awareness
- Digital financial skills
- Loan cost comparison

Programs should be localized in vernacular language and aligned with agricultural income cycles.

**2. Integration with SHG Networks**

Self-Help Groups can serve as financial literacy transmission platforms, especially for women. Structured literacy modules embedded within SHG meetings can enhance adoption rates.

**3. Behavioural Nudges**

Given behavioural biases, policy design should incorporate:

- Automatic savings schemes
- Simplified insurance enrolment
- SMS-based financial reminders

Behaviourally informed strategies can convert awareness into action.

**4. Strengthening Financial Advisory Access**

Village-level financial facilitation centres can reduce trust barriers and improve institutional engagement.

**5. Digital Literacy Expansion**

Since 53% rely solely on cash transactions, digital literacy training should accompany infrastructure expansion.

## 7. Conclusion

The study establishes a statistically significant and substantively meaningful relationship between financial literacy and rural household savings in Anantapur district.

While financial inclusion levels are high, effective utilization remains constrained by literacy deficits. Households with stronger financial knowledge exhibit better saving discipline, lower reliance on informal credit, and improved financial resilience.

Financial literacy therefore operates as a structural determinant of rural economic stability. Policy interventions must move beyond account access toward capability enhancement and behavioural reinforcement.

Localized, context-sensitive financial education strategies are essential for transforming inclusion into sustainable financial empowerment.

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