



Financial Literacy Among Rural Borrowers and Its Influence on NPAs: A Study from Jhansi Division

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DOI: <https://doi.org/10.70333/ijeks-04-08-002>

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Article Info:- Received : 13 April 2025

Accepted : 25 May 2025

Published : 30 June 2025

Abstract

The sustainability and profitability of India's banking industry are seriously threatened by the problem of non-performing assets (NPAs), especially in the rural and agricultural credit categories. The majority of people in areas like Bundelkhand's Jhansi Division, which includes the districts of Jhansi, Jalaun, and Lalitpur, rely on agriculture for their livelihood and regularly obtain credit from commercial institutions, cooperative societies, and regional rural banks. The idea, repercussions, and preventive actions associated with non-performing assets (NPAs) are not well understood by a significant number of these borrowers, especially small and marginal farmers, which results in defaults and long-term financial exclusion. The purpose of this study is to find out how financially literate rural borrowers are and how that affects the development and expansion of non-performing assets (NPAs) in the area. The study finds important knowledge gaps on loan terms, repayment obligations, and the effect of loan default on credit history and future borrowings by examining field data from a variety of borrowers, particularly in rural communities. This study uses a mixed-method approach to directly connect the growing trend of non-performing assets (NPAs) among rural borrowers in Jhansi Division with a lack of financial literacy. The results will help bankers, legislators, and educators create focused financial literacy initiatives and early intervention strategies to lower non-performing assets (NPAs) and encourage sustainable lending practices in rural areas.

Keywords: *Financial Literacy, Rural, NPA, Jhansi, Banking Industry.*



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1. INTRODUCTION

In India's banking industry, non-performing assets (NPAs) have grown to be a significant problem, especially in the rural and agricultural credit segments. The majority of

people in areas like Bundelkhand's Jhansi Division, which includes the districts of Jhansi, Jalaun, and Lalitpur, rely on agriculture as their primary source of income. To cover their farming costs, farmers in this area commonly take out loans from

commercial banks, regional rural banks, and cooperative groups. However, a sizable portion of these loans ultimately become non-performing assets (NPAs) as a result of irregular or non-repayment.

Growing up in the Jalaun district, where my father is known for being a forward-thinking farmer, I can attest to the fact that many farmers and small borrowers are ignorant of the fundamentals of non-performing assets (NPAs), their repercussions, and how timely repayment preserves their financial reputation. Most borrowers are unaware that their account may be labelled as non-performing after 90 days of non-repayment, which can result in legal collection proceedings as well as limitations on future credit availability.

Low financial literacy, which includes inadequate understanding of loan terms, interest rates, repayment commitments, and the long-term effects of default, is the root cause of this lack of financial awareness. It is a knowledge deficit that requires immediate attention through organized financial education, not a question of unwillingness.

In order to determine how financial literacy—or lack thereof—affects the development of non-performing assets (NPAs), this study intends to investigate the degree of financial literacy among borrowers in Jhansi division, particularly in rural and semi-urban areas. In order to stop NPA formation before it becomes irreversible, the study will identify these gaps and suggest workable solutions for early intervention, awareness campaigns, and banking outreach programs.

2. ABOUT NPA

When an asset stops bringing in money for the bank, it is considered non-performing according to the Reserve Bank of India's (RBI) master circular 1.7.2015 on Prudential norms on Income Recognition, Asset Classification, and Provisioning pertaining to Advances. The circular defines a non-performing asset (NPA) as an advance or loan in which—

- In respect of a term loan, interest and/or instalments of the principal remain overdue for a period of more than 90 days;
- In respect of an Overdraft/Cash Credit, the account remains 'out of order';

- In respect of bills purchased and discounted, the bill remains overdue for a period of more than 90 days;
- Principal or interest payments on agricultural loans are still past due for—
 - ❖ For short-duration crops, this means two crop seasons, and
 - ❖ For long-duration crops, it means one crop season.

2.1. Jhansi Division: Jhansi, Lalitpur, and Jalaun

The three districts that comprise the Jhansi Division of Uttar Pradesh are Jhansi, Jalaun, and Lalitpur. The historically significant but economically distressed Bundelkhand region, which is characterized by its semi-arid climate, little rainfall, and frequent droughts, includes this division.

- **Jhansi District:** The administrative centre of the division, Jhansi is a major urban and economic centre. A significant portion of the population still earns their livelihood from agriculture and other sectors, even though the district has better infrastructure than the other two.
- **Jalaun District:** Primarily rural, Jalaun is largely dependent on farming. Common issues in the district include uneven agricultural output, inadequate irrigation infrastructure, and water scarcity, all of which make farmers more dependent on institutional loans.
- **Lalitpur District:** Known for its large tribal population and backwardness, Lalitpur is one of Uttar Pradesh's least developed districts. Generally, agricultural production is low and credit dependence is high due to a lack of stable revenue streams and poor infrastructure.

In all three districts, the majority of borrowers are small and marginal farmers who primarily rely on institutional lending from cooperative banks, commercial banks, and regional rural banks (RRBs). Financial literacy is still lacking, though, and this has a direct impact on loan use, repayment trends, and the rising number of non-performing assets (NPAs) in the region.

3. RESEARCH OBJECTIVES:

- To evaluate rural borrowers' financial literacy in the Jhansi Division (Jhansi,

Jalaun, and Lalitpur), with an emphasis on small and marginal farmers.

- To identify knowledge gaps among rural borrowers regarding loan terms, repayment obligations, credit history, and the long-term effects of loan default.

4. REVIEW OF LITERATURE

According to the study, working young people in urban India have financial literacy levels that are on par with their peers worldwide, but having a high general education does not guarantee having sufficient financial literacy. Financial literacy is greatly influenced by important sociodemographic factors, such as gender, family income, and joint-family systems, underscoring the necessity of incorporating financial education into curricula at the high school and college levels. Understanding the determinants of financial literacy requires an understanding of contextual sociological and behavioral factors. Surprisingly, the study finds a negative relationship between financial attitude and behavior, which may be caused by children's weak locus of control, but a positive relationship between financial knowledge and behavior. Both personal knowledge and larger social contexts must be addressed by effective strategies (Agarwalla, Barua, Jacob, & R., 2013).

According to the study's findings, working women in urban Jaipur are not well-informed about financial concepts, such as recent financial innovations and basic banking services. Due to their extreme risk aversion, many women do not manage their savings using financial products such as credit or debit cards or financial advisors. Even with advancements in education and social standing, the majority of women continue to be careless when it comes to investing in a variety of financial products. Nonetheless, compared to other working women, those in metropolitan areas exhibit more financial independence and decision-making skills. Companies and financial institutions must implement focused awareness campaigns in order to improve the situation. In addition to increasing domestic savings and fostering capital formation, educating women about cutting-edge financial services can improve their financial inclusion. In the end, this will boost economic expansion and give women more influence in India's financial sector (Roy & Jain, 2018).

Today's financial environment is far more complex than it was a generation ago, requiring consumers to understand a wide range of financial products and their implications. Rural people in India have limited financial literacy compared to urban populations and mainly rely on traditional savings and investment methods like bank savings, insurance, gold, or land. Their awareness of modern financial instruments and credit management is very low. This gap hampers their ability to make efficient financial decisions. Financial education is essential not only for individual security but also for national economic stability. The government should actively promote financial literacy in rural areas through camps, seminars, and conferences. Such efforts will empower rural masses to manage their finances more effectively and participate in the broader economy (C.Thilakam, 2012).

Non-Performing Assets (NPAs) are a major problem for Indian banks, affecting their profitability and the overall economy. The study shows that public sector banks have a higher level of NPAs compared to foreign banks. Despite government efforts, NPAs remain significantly high and continue to hinder bank performance. The recovery issue mainly lies with large borrowers, not small ones, and stricter recovery policies are needed. The government should facilitate faster settlement of pending cases and reconsider mandatory lending to the priority sector. Complete elimination of NPAs is unrealistic, but serious efforts are required to reduce them. Otherwise, persistent NPAs will severely impact the financial health of Indian banks and the economy (Singh, 2016).

The rising Non-Performing Assets (NPAs) pose a serious challenge to the entire banking sector, affecting both small and large banks. High NPAs reduce bank profitability and erode shareholders' wealth due to mandatory provisions by RBI. The Insolvency and Bankruptcy Code (2016) has helped in asset recovery, showing some decline in NPA growth. However, stricter norms by RBI are still necessary to control the problem effectively. Poor asset quality is impacting banks' liquidity and slowing down overall economic growth. Continued and stronger efforts are essential to address this persistent issue (Agarwala & Agarwala, 2019).

Banks' primary job is to take deposits and turn them into loans, which generates assets and

liabilities. However, credit risk, or the possibility of borrower default, results in non-performing assets (NPAs), which are when loans cease to bring in money for the bank. In banking, a certain amount of non-performing assets (NPAs) is unavoidable, but a high amount is cause for concern. By decreasing revenue and raising provisions, excessive non-performing assets (NPAs) impair banks' financial stability. Thus, maintaining the stability and profitability of banks depends on efficient management of credit risk and NPA control (VIBHUTE, JEWARGI, & HARALAYYA, 2021).

According to the study, age, caste, household size, gender, and landholding size are some of the major variables influencing access to financial services in the Bundelkhand region. It emphasizes that access to institutional credit and active usage are crucial for financial inclusion; account ownership alone does not guarantee it. Due to lower default risks, banks prefer large landholders, making it more difficult for small and marginal landholders to obtain credit. An important factor is age, with older people having greater financial inclusion than young adults. Caste and household size have a negative impact on bank account usage, whereas education and banking experience have a positive correlation with credit access. According to the study, there are differences based on caste, with households in higher castes enjoying greater financial advantages. To promote involvement in the financial system, young adults' financial literacy must be raised immediately. To encourage fair access to financial services, policymakers should create inclusive strategies aimed at underserved populations. According to the study, there are differences based on caste, with households in higher castes enjoying greater financial advantages. To promote involvement in the financial system, young adults' financial literacy must be raised immediately. To encourage fair access to financial services, policymakers should create inclusive strategies aimed at underserved populations (Yadav & Sharma, 2018).

5. RESEARCH METHODOLOGY:

The purpose of this study is to evaluate rural borrowers' financial literacy and how it affects non-performing assets (NPAs) in the Jhansi Division of Uttar Pradesh, India. Three districts of the Jhansi Division—Jhansi, Jalaun, and Lalitpur—

were used for the study. These districts are typical of rural areas that deal with issues like low financial literacy, reliance on agriculture, and susceptibility to non-performing assets (NPAs).

5.1. Sample Selection

Using a purposive sampling technique, 57 respondents in all were chosen for the study, which concentrated on rural farmers who had taken out bank or financial institution loans. The respondents were distributed as follows among the three districts:

- Jalaun district: 20 respondents
- Jhansi district: 20 respondents
- Lalitpur district: 17 respondents

These respondents were primarily small and marginal farmers, who are considered the most affected by financial literacy challenges and NPA risks.

5.2. Data Collection Method

A structured, closed-ended questionnaire was used to gather primary data. It was created especially to gather information about rural borrowers' repayment patterns, financial literacy, access to financial services, and comprehension of financial products. The survey comprised yes/no and multiple-choice questions centered on important topics like:
Awareness of credit terms

5.3. Data Collection Process

Farmers in the area had trouble completing the questionnaire on their own because a sizable portion of them are illiterate or only partially literate. As a result, the researcher and the respondents had one-on-one personal interactions to gather data. The researcher thoroughly explained each question during these sessions, and based on the farmers' verbal responses, she graded their responses. By fostering trust with the respondents and guaranteeing accurate data collection, this encouraged them to give honest and trustworthy answers.

6. DATA ANALYSIS AND INTERPRETATION:

6.1. Overview

A thorough examination of primary data gathered from 57 rural borrowers in Jhansi, Jalaun, and Lalitpur via a structured questionnaire (Q1–Q16) is presented in this chapter. The analysis is arranged as follows:

- Demographic Profile (Section A),
- Loan-Related Characteristics (Section B),
- Awareness & Financial Literacy about NPAs (Section C), followed by cross-tabulations and interpretive insights linking literacy indicators with repayment outcomes (Repayment Regular vs Irregular/No; Ever NPA vs Not/Don't Know).

6.2. Demographic Profile: Section A

6.2.1. Age Distribution:

Here's the Age-wise Distribution of Respondents:

- Below 25 years: 2 respondents (3.5%)
- 25–35 years: 10 respondents (17.5%)
- 36–50 years: 30 respondents (52.6%)
- Above 50 years: 15 respondents (26.3%)
- Total Respondents: 57

6.2.2. Gender

❖ Data:

- Male: 56
- Female: 1
- Other: 0
- Total respondents: 57

❖ Percentage:

- Male: 98.25%
- Female: 1.75%
- Other: 0%

❖ Analysis:

- The overwhelming majority of respondents are male (98.25%).
- Female participation is extremely low (1.75%), indicating possible gender imbalance in the sample.
- No respondents identified as "Other."

6.2.3. Education

| Education Level | Count | Percentage (%) |
|-----------------|-------|----------------|
| Illiterate | 10 | 17.54% |
| Primary | 5 | 8.77% |
| Secondary | 12 | 21.05% |
| Graduate | 25 | 43.86% |
| Postgraduate | 5 | 8.77% |

- With 43.86% of the sample as a whole, the Graduate category is the most represented.
- Notable percentages of the population fall into the secondary and illiterate categories (17.54% and 21.05%, respectively).

- At 8.77%, the shares at the primary and postgraduate levels are the lowest.

6.2.4. District-wise Coverage:

| District | Count | Percentage (%) |
|----------|-------|----------------|
| Jhansi | 20 | 35.09% |
| Jalaun | 20 | 35.09% |
| Lalitpur | 17 | 29.82% |

- With 35.09% of all respondents coming from each district, Jhansi and Jalaun are equally represented.
- With 29.82% of the total, Lalitpur has a slightly lower percentage of responders.
- Although Jhansi and Jalaun have a slight advantage over Lalitpur, this distribution shows a sample that is fairly balanced across the three districts.

6.3. Loan-Related Characteristics (Section B)

6.3.1. Loan Access in the Last 5 Years (Q8)

Total Sample Size: 57 Farmers

All 57 respondents answered "Yes" to the question:

"Have you taken a loan in the last 5 years?"

→ All 57 answered YES

6.3.2. Type of Loan (Q9)

Distribution shows product penetration across KCC, SHG, agricultural loans, and other sources. While SHG loans frequently assist microbusiness and consumption smoothing, KCCs usually finance seasonal input cycles.

| Loan Type | Number of Farmers | Percentage (%) |
|-------------------------|-------------------|----------------|
| Kisan Credit Card (KCC) | 32 | 56.14% |
| Agricultural Loan | 25 | 43.86% |

- 32 Farmers specifically reported taking Kisan Credit Card (KCC) Loans.
- The remaining 25 Farmers did not know the exact name of the loan type or preferred to hide it for security/privacy reasons.

Therefore, for the purpose of clear classification and data consistency, the researcher categorized the remaining as Agricultural Loan (General Category).

6.3.3. Lending Institution (Q11)

Comparing Cooperatives, RRBs, Commercial Banks highlights delivery channels and perceived accessibility. Differences often reflect documentation demands, proximity, and perceived flexibility.

| Lending Institution | Count | Percentage (%) |
|---------------------------|-------|----------------|
| Cooperative Bank | 32 | 56.14% |
| Regional Rural Bank (RRB) | 25 | 43.86% |

6.3.4. Repayment Regularity (Q12)

Self-reported repayment status (Regular / Irregular / No) is a behavioral proxy linked to NPA risk. "Irregular" may indicate income volatility or knowledge gaps (payment cycles, penalties).

- Only 8.77% of farmers reported that their loan is being repaid regularly.
- A majority of 52.63% are currently not repaying the loan at all.
- A significant portion (38.60%) are repaying irregularly, reflecting financial instability or other constraints.

| Repayment Status | Count | Percentage (%) |
|------------------|-------|----------------|
| Regularly Repaid | 5 | 8.77% |
| Not Repaid | 30 | 52.63% |
| Irregularly | 22 | 38.60% |

6.3.5. Ever Declared NPA (Q13):

This is a past-outcome marker. "Don't know" responses themselves indicate awareness deficits that can shape future risk.

| NPA Status | Count | Percentage (%) |
|------------|-------|----------------|
| Yes | 29 | 50.88% |
| Don't Know | 28 | 49.12% |
| No | 0 | 0.00% |

- Exactly half of the farmers (50.88%) confirmed that their loan was declared as NPA (Non-Performing Asset).

- The remaining 49.12% of farmers responded with "Don't Know", indicating a significant lack of awareness about the NPA status of their loan.

6.4. Awareness & Financial Literacy (Section C)

6.4.1. Heard of NPA (Q14)

Baseline awareness (Yes/No) is critical; a low "Yes" share signals the need for basic orientation modules at first disbursement.

| HEARD OF NPA | Count | Percentage (%) |
|--------------|-------|----------------|
| Yes | 40 | 70.18% |
| No | 17 | 29.82% |

- A large majority (70.18%) of farmers reported having heard the term NPA (Non-Performing Asset).
- However, 29.82% of farmers were not aware of this important financial term.

6.4.2. Knowledge of the NPA Rule (Q15)

Knowing that overdue can trigger NPA classification influences repayment prioritization. "Not sure" denotes partial literacy.

| Awareness of NPA Rule | Count | Percentage (%) |
|-----------------------|-------|----------------|
| Yes | 0 | 0.00% |
| No | 22 | 38.60% |
| Not Sure | 35 | 61.40% |

- None of the farmers (0%) reported knowing the NPA rules.
- The majority (61.40%) responded as "Not Sure", indicating significant uncertainty or lack of awareness about specific regulations governing NPAs.
- 38.60% answered "No", indicating a definite lack of knowledge.

6.4.3. Knowing that NPA Affects Future Loans (Q16)

Understanding this consequence creates a strong behavioural incentive to stay regular, especially for future KCC renewals or term loans.

| Awareness of NPA Impact | Count | Percentage (%) |
|-------------------------|-------|----------------|
| Yes | 2 | 3.51% |
| No | 30 | 52.63% |
| Not Sure | 25 | 43.86% |

- Only 3.51% of farmers (2 out of 57 respondents) were aware that having an NPA status can affect their ability to obtain future loans.
- A majority (52.63%) of farmers (30 respondents) were not aware of this important consequence.
- A significant portion (43.86%) remained "Not Sure".

7. CONCLUSION

According to the study, rural borrowers in Jhansi Division have a worrisome degree of financial illiteracy, which has a big influence on their NPA status. Despite the fact that 70.18% of farmers had heard of non-performing assets (NPAs), none knew the precise rules governing them, and only 3.51% knew that NPAs had an impact on future loan eligibility. Financial instability is evident in the fact that a significant percentage of farmers (52.63%) are not repaying their loans at all, and 38.60% are doing so irregularly. Of the respondents, half acknowledged that their loan had been classified as non-performing, while the other half were not aware of this fact. Most borrowers obtained loans from Regional Rural Banks (43.86%) and Cooperative Banks (56.14%). Although 43.86% of the population had a degree, this did not translate into financial literacy.

98.25% of respondents were men, demonstrating a glaring gender gap and the low involvement of women in financial decision-making. All things considered, the results highlight the critical need for focused financial literacy initiatives to raise awareness, encourage responsible borrowing, and lower non-performing assets (NPAs) in rural India.

8. LIMITATION

The small sample size of 57 respondents, which might not accurately reflect the whole rural population of the Jhansi Division, is a limitation of the study. Furthermore, information was gathered

through one-on-one interviews and self-reported, which could introduce response bias.

9. FUTURE SUGGESTION

To better understand gender differences in financial literacy, future research should increase the sample size and include more female participants. It is also advised to develop and assess focused financial literacy initiatives for young and marginal farmers.

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Cite this article as: Hritik Patel and Dr. Sambhu Nath Singh., (2025). Financial Literacy Among Rural Borrowers and Its Influence on NPAs: A Study from Jhansi Division. *International Journal of Emerging Knowledge Studies*. 4(6), pp. 912 - 918.
<https://doi.org/10.70333/ijeks-04-08-002>