भारतीय लघु उद्योग विकास बैंक
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

FinScope Consumer Survey India

Under the Poorest States Inclusive Growth Programme

2015

FINSCOPE

FINMARK TRUST

Making financial markets work for the poor

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The FinScope study would not have been possible without the collaboration and commitment from various individuals - thank you for your efforts in enriching the FinScope PSIG India 2015 study.

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Acronyms and abbreviations

AP	Andhra Pradesh (state)
AIDIS	All India Debt and Investment Survey (NSS 70th round, 2013)
BC	Business Correspondent (of commercial banks)
BSBDA	Basic Savings Bank Deposit Account
CBs	Cooperative Banks
CPIAL	Consumer Price Index for Agricultural Labour
DCCB	District Central Cooperative Bank
EDA	EDA Rural Systems Private Limited
FGD	Focus Group Discussions
FMT	FinMark Trust
GCC	General Credit Card (line of credit for artisans)
GDP	Gross Domestic Product
GNI	Gross National Income
GOI	Government of India
ICT	Information & Communications Technology (read mobile banking through BCs)
IRDA	Insurance Regulation & Development Authority
KCC	Kisan Credit Card (line of credit for farmers)
M-CRIL	Micro-Credit Ratings International Limited (associate company of EDA)
MFI	Microfinance Institution
MP	Madhya Pradesh (state)
NABARD	National Bank for Agriculture and Rural Development
NAFSCOB	National Federation of Cooperative Banks
NAFSCUB	National Federation of Cooperative Urban Banks
NAIS	National Agricultural Insurance Scheme
NBFC	Non-Bank Finance Company
NDPS	National Disability Pension Scheme
NGO	Non-Government Organisation
NOAPS	National Old Age Pension Scheme
NWPS	National Widow Pension Scheme
OER	Operating Expense Ratio (operating expenses during a period divided by the average loan portfolio for that period)
PACS	Primary Agricultural Credit Society
PMJDY	Prime Minister's Jana Dhan Yojana (people's wealth programme)
PPI	Progress out of Poverty Index
PPP	Purchasing Power Parity
PSIG	Poorest States Inclusive Growth programme
RBI	Reserve Bank of India
RRB	Regional Rural Bank
RSBY	Rastriya Swasthya Bima Yojana (National Health Insurance Scheme)
SCB	State Cooperative Bank
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
PSC	Project Steering Committee
UCB	Urban Cooperative Bank
UP	Uttar Pradesh (state)

Foreword


Dr. Kshatrapati Shivaji

I am happy to know that the Poorest States Inclusive Growth (PSIG) Programme, being implemented by Small Industries Development Bank of India (SIDBI), with the support of UKaid, is publishing the report of the FinScope Survey conducted in the four PSIG states of Bihar, Madhya Pradesh, Odisha and Uttar Pradesh in India.

The FinScope Survey, developed by FinMark Trust based in South Africa, and is a scientifically designed survey methodology. In the present survey, it has weighted data of 16 000 representative households in the four PSIG states of India. The report highlights the financial behaviour of the households across the demography along with the different kind of risks perceived and ways of coping with them. It attempts to define financial inclusion with respect to gender, geography, age, income level and social groups. In addition to the household level, the report has also drilled down to whether an individual within a household is financially included or excluded. This makes the report usable in India to design appropriate financial services for different categories of consumers.

The report has benchmarked the key riders of the financial inclusion and I am sanguine that it would provide an impetus to the policy- makers for incorporating different options for inclusive finance.

My congratulations to the PSIG Team for their efforts.

Dr. Kshatrapati Shivaji
CMD, SIDBI


David Elliott

It is my extreme pleasure to know the report of the FinScope Survey is being published and I hope this brings up the financial inclusion status of the PSIG states and also flag issues of concern and opportunities to move further.

It is a happiest moment that the Poorest State Inclusive Growth (PSIG) Programme has established a way forward in the inclusive finance sector in India particularly in the four implementing states viz. Odisha, Bihar, Madhya Pradesh and Uttar Pradesh in conducting the FinScope Survey in these states. The survey, taking little a longer than a year, has come out nicely in the form of a full-fledged report and brochure as ready reference. The compilation and analysis of both supply and demand side data on the financial services being accessed by the consumers has reflected the key successes as well challenges in front of the policy makers, regulators, bankers, financial intermediaries and implementers.

I appreciate the efforts of Dr. Prega Ramsamy, CEO, FinMark Trust, South Africa and his research team in conceptualizing and implementing the FinScope Survey in four PSIG states in India. My sincere thanks to the survey team of AFC India Ltd. New Delhi, India for their tireless effort in collecting quality data from the field and EDA Rural Systems Pvt. Ltd. for their coordination, facilitation and support for the implementation of the survey. Congratulations to the PSIG team, both at DFID and SIDBI, for publishing the FinScope Survey report. I will wait for the repeat survey to see the potential changes that will have resulted in the post-PSIG implementation period.

David Elliott
DFID, India

Executive Summary

FinScope Consumer India (PSIG) 2015 is the first financial inclusion survey of the Poorest States Inclusive Growth (PSIG) in which a representational cross-section of adult Indians were interviewed comprehensively about their financial behaviour, familiarity with financial terminology and their use of financial services. A total of 16,000 households were covered by the survey from which one person from each household aged 18 years or over was selected (with equal opportunity for interviewing in the second half of 2015).

The introductory **Chapter (one)** presents the background and the setting for the analysis. Some of the important issues relevant to the use of the study are reviewed together with the interpretation of the data. The objectives of the FinScope Surveys developed by FinMark Trust (FMT) are also presented here. Differences between the FinScope findings discussed in this report and other surveys such as the AIDIS are in part due to differences in definition and scope of the surveys being compared, the computation of the variables, differences in terminology and focal areas (adult versus household) and the period the surveys were implemented. Hence, caution should be exercised when comparing variables in this report against other survey documents. **Chapter two** presents the literature review of the Indian financial sector, particularly relevant to the PSIG states. The chapter explores the financial products that are available to the public emphasizing the initiatives in the financial sector that have driven the agenda of financial inclusion. Further, the chapter looks at the economic variables such as sectorial production and gross domestic products of the PSIG states in relation to the rest of India to give a background of the PSIG economic status. It shows that India (and the PSIG) has an extensive, diverse and apparently inclusive financial architecture. Despite significant growth in private sector banks in recent years, the public sector continues to predominate; with 70% of total bank credit being accounted for by the government-owned banks.

Chapter three discusses the methodology used in the FinScope sampling and weighting methodology. It also specifies the data collection and quality control measures put in place to ensure that high quality data was obtained and captured accurately. Training of enumerators commenced on 1st of July 2015 in Madhya Pradesh, 8th of July 2015 in Bihar, 15th of July 2015 in Odisha and 20th of July 2015 in Uttar Pradesh. Data collection started within a week from the first day of training in each state. The processes that were involved from the design phase of the study (sampling, questionnaire design, etc.) to the completion of the field survey were overseen and approved by the Project Steering Committee.

Chapter four provides a socio-economic profile of the adult population of the PSIG states (sometimes households), which is critical for contextualising financial access, and the usage patterns of financial services. The variables analysed in the study are important indicators of people's livelihoods, their quality of life and means of survival. It shows that over half of the PSIG households live below the poverty line with 80% of the adult population residing in rural areas. About three out of ten adults have no formal education with females having about double the proportion of uneducated adults compared to males. The study also reveals that PSIG adults source their income from various places with salary or wages being the most popular source of income closely followed by farming or agriculture. Household remittances form an essential part in contributing to household income. The study also shows that documentation and infrastructure are not real barriers to financial inclusion as nine out of ten adults have some form of documentation. Also, the average time taken to reach a financial service point is 30 minutes in both urban and rural areas.

Chapter five briefly discusses the financial behaviour of adults and explores their coping mechanisms for risk or hardships that they faced in the past year. Findings from this chapter are related to those of Chapter four that show many of the challenges are inter-twinned with education, income and gender. Many adults choose to reduce expenditure or use savings to cope largely with inflationary costs or illness within the household. Surprisingly, death-related risk was not mentioned although life insurance is a huge driver of insurance uptake explored in chapter nine. To better understand the lives of adults in the PSIG states, statements concerning their financial lives were asked. The study shows that about nine out of ten adults agreed to spend more money than they had available and seven out of ten adults found dealing with finances stressful.

Chapter six explains the Financial Access Strand based on the FinScope methodology and determinants of financial inclusion. The FinScope methodology details the analytical framework through which the categorising of financial products is discussed. The chapter explains how the banked population is further segmented into three sub-segments as well as the other categories of the FinScope classifications. FinScope estimates a total of at least 267 million adults in the PSIG states. These were put under investigation to understand their demographic landscape which is likely to affect how people interact with financial services.

Chapter seven presents the analysis of the levels of financial inclusion and exclusion using a livelihoods framework approach and FinScope indicators (overall uptake, overlaps, access strands and landscape of access), which give a holistic view of financial inclusion and livelihoods. Showing the results of financial inclusion across different demographics, a prominent finding is found in this chapter. Many of the households, even the poorest, living in rural areas or having informal income sources – have some form of financial access to products and services. This gives context to the analysis of financial access and exclusion at individual level within the chapter. The link between financial access and households and individuals skews towards households – showing higher inclusion rates amongst households than among individuals.

Findings in this chapter indicate that the levels of financial inclusion in the PSIG states are high – 94% of households in the PSIG states are financially included (either included formally or informally). Financial inclusion is driven by the uptake of the banking products and services. When deducing levels of financial inclusion among adult individuals, one notes that 75% of adults have some type of financial account with formal providers. At household level, the most important finding showed that 92% of households in the PSIG state have bank accounts. This high penetration of banking products at household level allowed 241 million adult individuals in the PGIS state to have bank accounts.

Bank product uptake is reviewed in **Chapter eight**. About 45 million adults are banked through PMJDY banking accounts (Jan Dhan bank accounts). Although the financial inclusion campaign has seen good progress, there is a significant amount of adults with bank accounts that are inactive at 14% (25.5 million).

The usage of electronic payments in the PSIG states is relatively low, providing an opportunity for disrupting cash through accelerating electronic payments in the PSIG states. There is also still a number of unbanked adults (74 million), with the chapter exploring segments that can be reached mainly rural areas, adults without formal education, Bihar state and women.

Chapter nine examines insurance, which is the main driver for other formal (non-bank) institutions. About 28% of all households are insured and the percentage of adults insured is 20% largely being driven by life and medical insurance. Although adults face risks as detailed in Chapter 5, the use of savings to cope with illness-related risk as well as inflationary costs is high. The main reason why adults in the PSIG states do not have an insurance penetration in PSIG relates to affordability and a financial literacy deficit.

Savings patterns are explored in **Chapter 10**. Savings are the leading product type for the entire PSIG states and this is encouraging as savings are the key to enabling adults to create wealth, pay for household furniture and equipment and most importantly, enables adults to use it as collateral for accessing credit. The chapter finds that people save mainly for medical emergencies (59%), which explains why the medical insurance is low. This low uptake of insurance may be attributed to the cost of medical insurance but linked to this relatively small number is that about 5% of adults source their income from salary or wages from government or private companies. This leaves the rest of the adults who may not have a steady income source to afford medical/health insurance to save for such expenses. Adults also save for developmental purposes such as education, buying livestock or farming equipment and business.

The credit uptake and behaviour is discussed in **Chapter 11** and attempts to analyse the use of credit. The overall incidence of formal borrowing in the PSIG states is lower compared to formal savings. Only 9% (around 24.1 million) of the adults in the PSIG states borrow money from the formal institutions as compared to 73% that are saving. The proportion of adults who are borrowing from the formal sector varies significantly within the PSIG states with Bihar showing higher population from the informal sector mainly being pawnshops. Odisha's population proportion of those borrowing is largely from the formal sector (22%), which is double that of Bihar's borrowing population proportion (10%). The main drivers for credit are similar to those of savings with buying livestock or farming equipment being first and medical emergencies being second among others.

Remittances are discussed in **Chapter 12**. About one in twelve households (5.9 million) in the PSIG states remit (mainly receive) money from someone living in a different place at least monthly or few times in a year. The main channel used by households and individual adults to remit is through the bank with mainly adults from Uttar Pradesh largely remitting from both urban and rural areas. Surprisingly, besides the use of banks for remitting money adults send or receive their money in cash (directly).

Chapter 13 presents the conclusions, recommendations and opportunities based on the results of the study. Conclusions are consolidated under the issues of disparities (urban and rural) access issues; access and costs; product use; technology and innovation; and gender issues. Financial inclusion in the PSIG states is clearly driven by banking products. However, the landscape of banking products indicates that banking clients are mainly served in terms of their savings needs (99% of banked population use it for saving compared to 44% who reported transactional products). A significant number of the bank accounts are dormant (14%). The second driver of formal financial accounts is insurance penetration, at 21% of the PSIG adult population. Areas of concern are discussed in this chapter in particular the low health insurance uptake of adults, financial literacy and high dormancy rates for the banking accounts. Recommendations/opportunities focus on targeting the segments as identified in the study addressing segments that need attention to achieve a fully banked society as envisaged by government of India and other development partners. These include innovative and affordable financial products, financial education programs and further investigation of savings products and usage.

1. Introduction

1.1. Background of the FinScope study in the 4 PSIG states of India

Poorest States Inclusive Growth Project (PSIG) programme, supported by **UK's Government Department for International Development (DFID)** and implemented by **SIDBI** aims to enhance income and employment opportunities of poor women and men by enabling them to participate and benefit from wider economic growth in India. The programme expects to improve access for poor men and women to a variety of financial services in four low income states namely Bihar, Odisha, Madhya Pradesh and Uttar Pradesh. It is working to contribute to an appropriate policy environment, including a range of studies of different aspects of financial inclusion in the four states. The FinScope study has been commissioned to provide robust data on access and the barriers to access, as a basis for more informed policy making and strategy.

The four states, Bihar, Madhya Pradesh, Odisha and Uttar Pradesh, are all located in the east-central region of the country and are amongst the most populous states of India, accounting between them for 34.6% of the population but only 16.3% of the GDP in financial year 2012 – 13. In recent years all of these states have reported higher growth rates of per capita income than the country as a whole though it is combined with lower credit to GDP and credit-deposit ratios than the national average. This suggests the simultaneous effect of a high level of public sector investment which means a lower level of formal sector debt financing as a factor in economic growth. It further indicates a high degree of informal financing of economic activity in these states on account of a higher level of informal enterprise resulting in a significant proportion of debt in the economy going unrecorded. The lower C-D ratio means local savings are largely being deployed productively in other parts of the country.

An important development in the Indian economy over the past couple of decades has been the shift in share of production from the primary (agriculture and mining) sector to the tertiary/services sector which now accounts for over 59% of GDP. The relatively low educational attainments and health indicators in the PSIG states have inhibitated the modernisation of these states relative to much of the rest of the country. Thus, the shift of the national economy towards relatively modern service activities like Information and Technology (IT), communications and biotechnology have not brought much cheer to the PSIG states.

As a result of the efforts being made to promote financial inclusion in the country as a whole, the PSIG states are amongst those that have received more attention in recent years resulting in a high proportion of rural/semi-urban branches. However, the population per bank branch is still higher in the PSIG states than the average for the country as a whole – with Bihar performing particularly poorly.

The FinScope survey is a research tool, which was developed by FinMark Trust. It is a nationally representative survey of how adult individuals source their incomes, and how they manage their financial lives. It also provides insight into attitudes and perceptions regarding financial products and services. The survey, by design, is intended to involve a range of stakeholders, thereby enriching the data through a process of cross-cutting learning and sharing of information.

The information provided by this survey will help extend the reach of financial services in four states in India (Odisha, Uttar Pradesh, Madhya Pradesh and Bihar) as it will provide an understanding of the 4 PSIG states' adult population in terms of:

- Their livelihoods and how they generate their income;
- Their financial needs and/or demands;
- The levels of financial inclusion (formal and informal) and the types of financial products (formal and informal, credit, savings, etc.);
- Their financial perceptions, attitudes and behaviour;
- Their demographic and geographical distribution;
- The obstacles they face and the factors that would have an influence on their financial situations;
- Current levels of access to, and utilisation of, financial services and products (formal and/or informal);
- The landscape of access (i.e. types of products used in terms of transactions, savings, credit, insurance and remittances);
- Drivers of financial products and service utilisation; and
- Barriers to, utilisation of, and access to, financial products and services.

This report documents the principal findings of the survey and presents recommendations for stakeholders of India's 4 PSIG states and other interested stakeholders.
The breadth of information collected in the survey allows analysis of the population across a multitude of different variables such as

specific state, rural/urban, income level, household size, age group, gender among other demographic variables. This report captures the main findings in a manner comparable to FinScope reports in other countries. However, further in-depth analysis could be performed on the data that has not been covered in this report. Stakeholders are recommended to review the data available in order to help them to address financial and development questions that are of importance and significant to them.

FinScope India PSIG 2015 is a state level representative survey, with reporting domains ranging from urban and rural levels. With a sample of 16,000 adult individuals, it provides estimates for the aforementioned domains state, urban and rural levels.

The FinScope India PSIG 2015 survey is designed to involve a range of stakeholders engaging in a comprehensive consultation process. FinScope surveys provide an in-depth analysis that, serve the informational needs of policy makers, financial services providers, donors and researchers. This process has enriched the survey and the shared results have contributed meaningfully to members who have a common interest in financial inclusion.

The FinScope Consumer Surveys have been conducted and completed in 17 African and 6 Asian countries including India's PSIG states. Because the FinScope methodology includes savings mechanisms or investments as financial services, each country's inclusion of what constitutes the main forms of savings or investment are different and prone to the local context. Of importance in the long term, however, is the manner in which the methodology is robust and consistent with other studies and data sources.

As a guide to the reader, caution must be exercised when comparing FinScope survey findings for the PSIG states against other surveys conducted covering similar financial access variables. These differences can be explained by:

- **Definition and scope:** FinScope uses its methodology from the design of the survey to the analysis and reporting of the variables which may be similar to those used in other surveys but may likely be constructed differently. Further, FinScope is both an adult and household survey that allows for comparison with other surveys but taking into account the differences as stated earlier. The terminology may also be different such as 'currently borrowing' used in FinScope and 'incidence of indebtedness' used in the AIDIS;
- **Different focal area:** With the FinScope survey focusing only on the PSIG states, comparison against other Indian wide survey may differ in comprehensiveness and representativeness; and
- **Time of survey:** Financial landscapes change rapidly over time and differences in data points between FinScope and other surveys should be explored and explained by other data points.

1.2. About SIDBI

Small Industries Development Bank of India (SIDBI), set up on April 2, 1990 under an Act of Indian Parliament, acts as the Principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium Enterprise (MSME) sector and for Co-ordination of the functions of the institutions engaged in similar activities.

The business domain of SIDBI consists of Micro, Small and Medium Enterprises (MSMEs), which contribute significantly to the national economy in terms of production, employment and exports. MSME sector is an important pillar of Indian economy as it contributes greatly to the growth of Indian economy with a vast network of around 4.6 crore units, creating employment of about 11 crore, manufacturing more than 6,000 products, contributing about 45% to manufacturing output and about 40% of exports in terms of value, about 37% of GDP, directly and indirectly.

1.3. About FinMark Trust

FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in March 2002 and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. More recently some other funders (UNCDF, Bill & Melinda Gates Foundation and MasterCard Foundation) have come on board to support the work of FinMark Trust. FinMark Trust is a not-for-profit independent trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'. In pursuit of its purpose, FinMark Trust supports institutional and organisational development which increases access to financial services in Africa, by conducting research to identify the systemic constraints that prevent financial markets from reaching out to poor consumers and by advocating for change on the basis of research findings.

1.4 About DFID

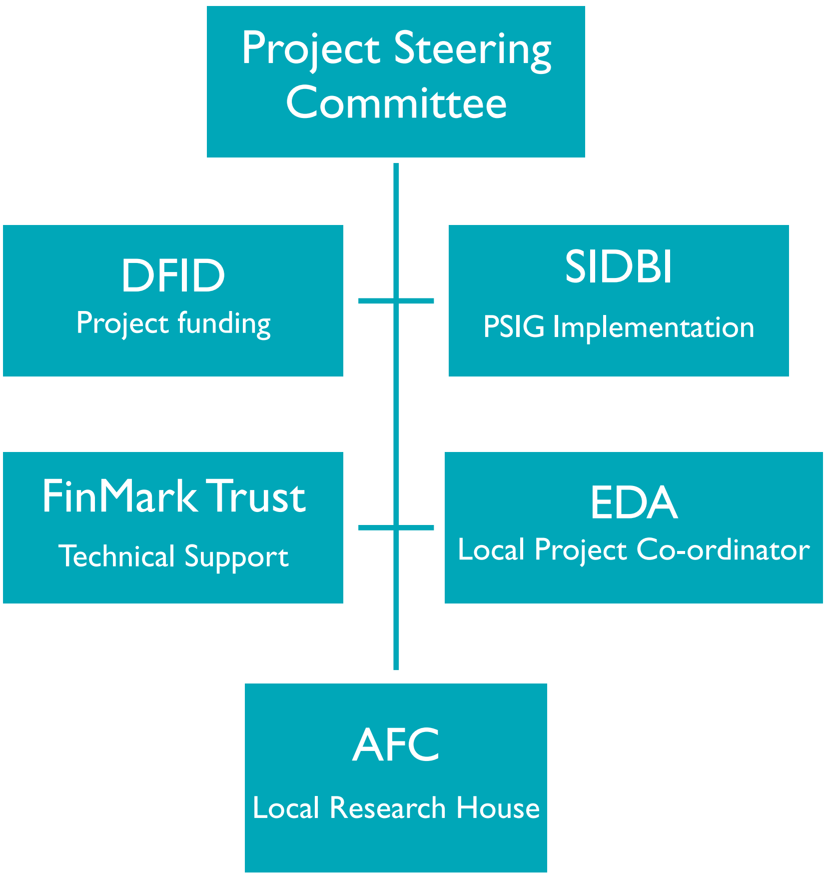
The Department for International Development (DFID) leads the UK's work to end extreme poverty, building a safer, healthier, more prosperous world for all of us which is firmly in the UK's national interest. We are ending the need for aid by creating jobs, unlocking the potential of girls and women and helping to save lives when humanitarian emergencies hit.

UK's Department for International Development (DFID) partnered with Small Industries Development Bank of India (SIDBI) to deliver an ambitious Poorest State Inclusive Growth (PSIG) Programme in 2012. This seven-year £30m technical assistance programme aims to increase responsible access to financial services for 12 million low income households in four poorest states of India – Uttar Pradesh, Madhya Pradesh, Bihar and Odisha. This programme is currently in its fourth year of operations has three distinct but interrelated outputs of working at policy, institutional and client level.

1.5. Partnering for a common purpose

The FinScope Consumer survey was conducted under the supervision of the Project Steering Committee and was customised to take into account the Reserve Bank of India (RBI) definitions and socio- economic survey norms in India. The process was overseen and approved by various members of the Project Steering Committee. During the course of the survey, guidance was taken from the Project Steering Committee, FinMark Trust, DFID, EDA Rural Systems as Local Project Coordinator and AFC as the research house.

Figure 1: FinScope Consumer Survey India (PSIG) 2015



The structure and organisation of the FinScope Consumer Survey India (PSIG) 2015 is displayed in Figure 1 above.

DFID is a ministerial department, supported by 2 agencies and public bodies. For more information, please visit: https://www.gov.uk/government/organisations/department-for-international-development

2. The Financial Sector in India and the PSIG States

2.1. Financial architecture of the Indian financial sector

This sections looks at the existing literature and supply-side information which will provide background and context to the results of the survey.

India has an extensive, diverse and apparently inclusive financial architecture. Table 1 and Figure 2 summarise the various levels of the Indian financial system – numbers of institutions/groups, fund flows and regulatory relationships. At each level the financial inclusion agenda plays an important part in the geographical spread of institutions and the product mix offered by them. Despite significant growth of the private sector banks in recent years, the public sector continues to dominate; the 26 government-owned banks accounted for over 70% of total bank credit outstanding at the end of March 2013[1].

Table 1: India's financial system

Type of financial institution	Institutional ownership	Regulator	Number of institutions
Commercial Banks	Government of India	RBI	26
	Private – Indian		20
	Foreign		41
Regional Rural Banks (RRB)	Government	RBI	56
Local Area Banks	Private – Indian	RBI	4
State Cooperative Banks	DCCBs/State government	State government	31
District Cooperative Banks	PACS/individuals	RBI	371
Primary Agricultural Cooperative Societies (PACS)	Individuals	State government	~92 000
Urban Cooperative Banks (UCBs)	Individuals as members	RBI	1 589
India Post	Government of India	Self	1
Non-Bank Finance Companies (NBFC)	Private – Indian, some partly or wholly foreign	RBI	12 375 of which approx. 90 are micro-finance NBFCs
NGOs: Societies/trusts	No ownership structure	Central/state government	Approx. 180 in microfinance*
Self help groups	Unregistered – member equity	Self, some supported/guided by NGOs	1. With outstanding bank loans – 4.20 million 2. With bank savings accounts – 7.43 million

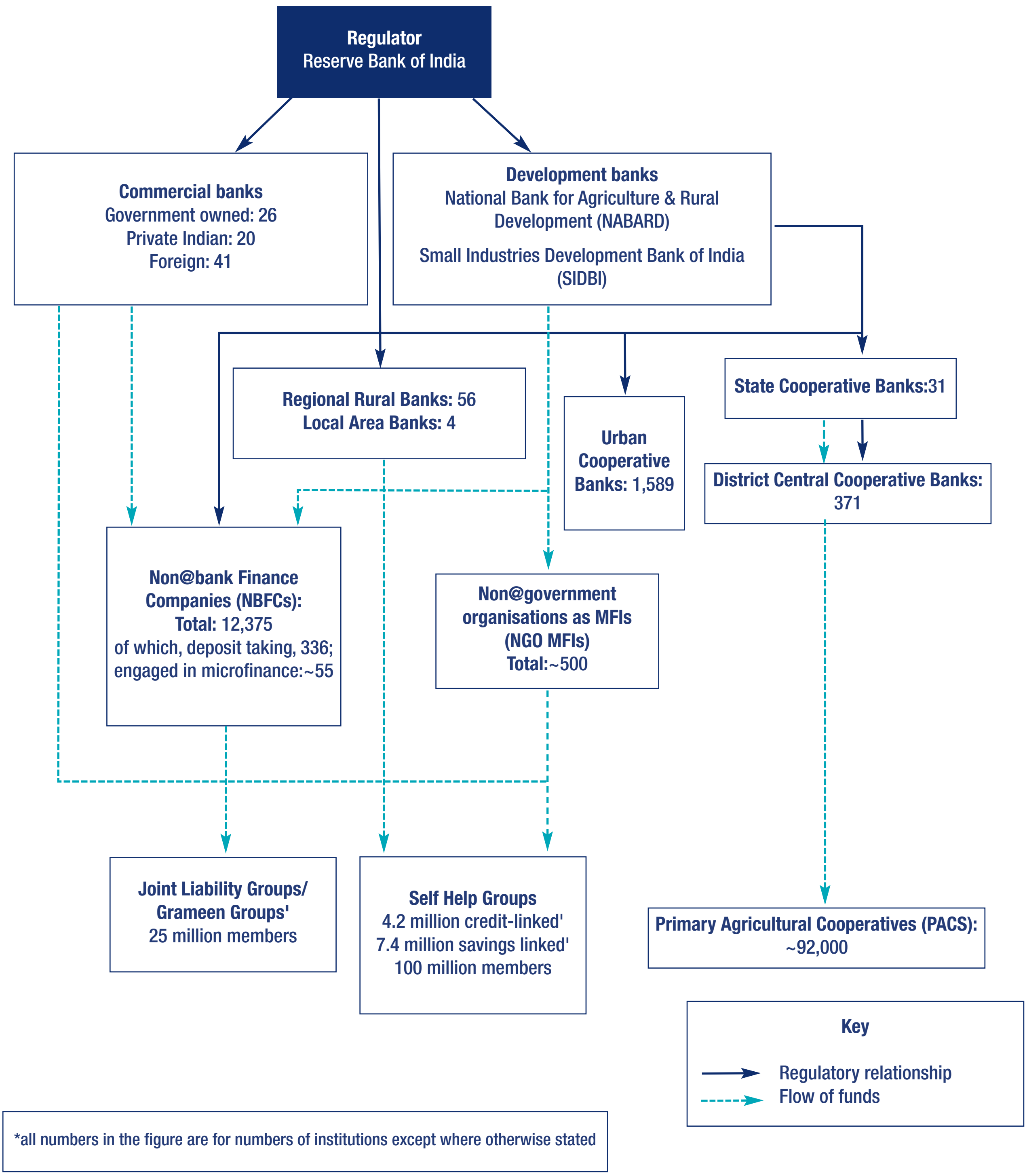
Sources: RBI reports, NAFSCOB Annual Report 2013-14, NABARD: Status of Microfinance in India, 2013-14 (for SHGs) and M-CRIL estimates for Indian MFIs.
* According to the Sa-Dhan Directory of MFIs, 2014.

The inclusive finance architecture of India is, thus, predominantly composed of public sector commercial banks that have large numbers of rural and semi-urban branches, government-owned Regional Rural Banks (RRBs) and heavily state-supported cooperative banks (CBs) along with their linked cooperative credit societies (PACS). Self-help groups (SHG) have the largest outreach in terms of membership (100 million members) and are serviced largely by the public sector banking system (including RRBs and CBs). Member-owned Urban Cooperative Banks (UCBs) play a relatively small role in servicing the poor though their outreach to urban low-income families is significant in some states. For deposits there is also India Post with many offices in villages. In the context of financial inclusion, it is mainly non-bank finance companies engaged in microfinance (MF NBFCs) that are (largely) owned by private investors that provide small loans to vulnerable sections of people. Until now, these institutions have not been permitted to provide deposit services; as a result, they have provided mainly micro-credit to low-income families with (80%) debt funding from commercial banks (both government owned and private banks) and investor funds (20%).

[1] Much of the discussion of the financial sector in this report is based on data for end-March 2013 or earlier. It is taken largely from RBI annual publications, Trend and Progress of Banking in India and Statistical Tables on Banks in India. During 2014, the former was not published and the latest edition of the latter (containing March 2014 data) has not been published yet.

Microinsurance is mostly offered directly by insurance companies – both government owned and private. There is one government owned life insurance company – Life Insurance Corporation of India (LIC) and 4 government owned general insurance companies. In addition there are 23 private life insurance companies and 22 general insurance companies (five of which specialise in health insurance, although all offer health insurance products)[2]. The LIC (by far the largest of the life insurers) has over 75% of the market in terms of premium collected, although India Post has a large number of active life insurance policies[3]. The government-owned insurance companies have 55% of the non-life insurance market (in terms of premium collected).

Figure 2: Structure of India credit system



Source: EDA Rural Systems Private Ltd (2015) literature review

2 www.irda.gov.in – the website of the insurance regulator.
3 IRDA Annual Report 2013-14. Due to the likelihood of multiple counting there is no information on the number of lives insured

2.2. The financial inclusion landscape

The inclusive finance architecture of India is predominantly composed of public sector commercial banks (which account for 70% of total bank credit) with large numbers of rural and semi-urban branches, government-owned Regional Rural Banks (RRBs) along with heavily state-supported cooperative banks (CBs) and their linked cooperative credit societies (PACS). Deposit and remittance services are also available through the 150,000 outlets of India Post. Self-help groups (SHG), which have the largest outreach in terms of numbers, are also serviced largely by the public sector banking system. It is mainly non-bank finance companies engaged in microfinance (MF NBFCs) that are owned by private investors. Until now, these institutions have not been permitted to provide deposit services; as a result, they are focused on micro-credit to low-income families. Both public sector and private companies provide insurance services while health microinsurance and micro-pensions are managed mainly by government agencies.

There is a range of apparently inclusive financial products – lines of credit for farmers and artisans (KCC and GCC from banks) and loans from cooperatives, SHGs and MFIs. MFIs are not allowed to offer deposits, SHG deposits are quasi-compulsory and small in size and cooperatives have poor governance, hence, a bad reputation, limiting public interest in their offering. The new, low balance, bank deposit accounts (BSBDAs) are yet to become widely used. These have been greatly expanded over the past year through the Prime Minister's Jan Dhan Yojana (PMJDY) which now has over 217 million accounts*.

Microinsurance regulation in India has led to services becoming widely available, though mainly through linkage with the loans provided by MFIs, RRBs and cooperative banks. Over the past few years government implemented microinsurance for hospitalisation and micro-pensions have also become available and coverage of low income populations is being rolled out more widely than before. The state sponsored insurance schemes have a dominant welfare character and may not be commercially viable.

In theory, there is a substantial network of financial service contact points including bank branches and large numbers of business correspondents, SHGs, cooperatives and MFI branches spread over the country and India Post offices for deposit and remittance services. In practice, many of these contact points overlap on account of the limited service offering from each one and, as a result, there remain large gaps in the system – in terms of geography or services available – that result in incomplete outreach.

However, the extent of financial inclusion is still low despite the efforts of the government and RBI to promote the opening of deposit accounts with the banking system. Just 6.8% of all deposits are in inclusive accounts and the latest Financial Inclusion Tracker Survey by Intermedia in late 2013 showed that only 47% of adults had registered bank accounts and half of these, mostly basic accounts opened for subsidy transfers, were inactive. The Findex Survey for 2014 reports 53% of the population (but only 43% of women, 63% men) with bank accounts.

Credit outstanding has been stagnant in real terms except in loans for agriculture. Under pressure from the government, the banking system has expanded its lending to farmers quite significantly in recent years while GCCs have expanded even faster. There has been a substantial thrust on lending through various poverty reduction schemes. However, overdraft facilities in the more inclusive BSBDAs are still small so as to be almost negligible and the real value of loans from SHGs and MFIs have been stagnant over many years resulting in a natural incentive for multiple borrowing as the real GDP per capita rises. While 11.4% of all credit has been provided through inclusive accounts, much of this is to relatively large farmers (with more than 2 hectares landholding) who are unlikely to be financially excluded.

There is insufficient information on insurance to make an assessment of the growth of microinsurance but the overall growth of premiums collected by the insurance sector, 9.4% for life insurance and 12% for non-life insurance points to reasonable growth. The number of insurance agents is significant though the sale of microinsurance is mainly through aggregators like cooperatives, RRBs and MFIs. Rural Postal Life Insurance, which has been available for a number of years and now has 15 million active policies still covers a small proportion of the population and is growing relatively slowly at 5% per annum. However, life insurance cover of ₹30,000 to 188 million account holders through the PMJDY has the potential to provide some relief to low-income families. Similarly, hospitalisation cover of ₹30,000 per annum to 36 million of 247 million families (26% of them in PSIG states) also provides some relief in states like Odisha where coverage is relatively high (66%) but less so in Bihar where it is low (12%). Limited information on crop insurance suggests a coverage of 15-25% of cultivated area nationwide but around 40% in MP.

Inclusive finance products available in India are summarised in Table 2. Deposits cannot be offered by non-bank finance companies which rules out MFIs (with more than 25 million client accounts) from providing deposit services.

* As of 5 May 2016. Source: PMJDY webpage, DFS, MOF, GOI

Table 2: Inclusive finance products

Product	Institutions	Purpose	Term/collateral	Interest rate
Deposits				
Passbook savings	All types of banks, PACS, India Post	Intermittent savings, individual fund management	Indefinite	4%
Term deposits	All types of banks, India Post	Long term savings	6 months to 5 years	4.5% - 8.5%
Recurring deposits		Regular savings	12 - 120 months	Same as term deposits
Credit				
Loans to SHGs	Commercial banks, RRBs	On-lending to members	3 years, no collateral	11.5-12.5%
Kisan Credit Cards (KCC)	Commercial banks, RRBs, Cooperative Banks	Farmers' agricultural operations	Line of credit – reviewed annually, proof of crop land ownership/no collateral up to ₹100,000	7% (additional 4% subsidy for on-time payment in some states 11.5-12.5%
General Credit Cards		Entrepreneurial finance for non-farm production activities up to ₹50,000		
Cooperatives	PACS	Agricultural operations	6-12 months, collateral as above	As for KCC
Microfinance loans by MFIs	Microfinance institutions	Productive investments	Mainly 12 months, ₹15,000, up to 24 months, no collateral	24-30%
Microinsurance				
Name	**Offered by**	**Insurance type**	**Cover up to**	**Sold via**
Jeevan Madhur	Life Insurance Corp & similar products offered by others	Life, premium paid weekly, monthly, quarterly, bi-annually	₹30,000	Individually or to groups via financial institutions including cooperatives and MFIs
Health and property insurance products	Most of over two dozen general insurance companies	Health, accident, fire, property	₹50,000	
Family health insurance	RSBY – National Health Insurance	Hospitalisation	₹30,000 per annum (5 family members)	Ministry of Health
Rural Postal Life Insurance	India Post	Life	₹500,000	Individually
Crop insurance	Agricultural Insurance Corporation of India	For food-grain and a few other notified crops	Average yield of previous 7 years or bank loan amount	Individually or compulsorily via bank (KCC)
Remittances				
Name	**Offered by**	**Type**	**Cost**	
Money orders	India Post	Person-to-person	~5% of money order value	
Bank transfers	Banks	G2P and P2P	Variable ~0.005%	

Source: EDA Rural Systems Private Ltd (2015) literature review

The savings linkage of over 100 million members of SHGs is limited to relatively small quasi-compulsory savings made by members as a means of accessing bank credit (often around 25% of the bank credit applied for). It is termed as thrift rather than savings, since withdrawals are limited (and sometimes practically impossible). Although PACS have considerable outreach, they have suspect viability and serious governance issues. They are, therefore, not preferred as deposit-taking institutions. The limited avenues available for small depositors are to have either savings accounts at banks or post offices. The postal deposit system has been in decline for many years due to low information technology adoption, slow response to competition, low service quality and the reduction of interest rates on diferent small savings products of the government offered through the post offices. The network has not expanded in recent years. Nevertheless, post offices are located predominantly in rural areas and the postman continues to be a familiar figure in villages facilitating outreach to large numbers of otherwise under-served rural families. The products offered to individual depositors in banks are similar across the financial system as is interest paid (except in the case of one private bank which pays a somewhat higher rate on passbook savings accounts).

All the institutions shown in Figure 2 offer credit products. The main lenders to large numbers of low income (financially excluded) persons are SHGs, PACS and MFIs. However, the quantum of loans from SHGs and MFIs is small and the credit offering of MFIs is rigid; it is based on a number of cycles of borrowing (each usually 12 months) from the MFI rather than on the needs of the borrower. SHG loans (average outstanding ₹7,306, $120) are even smaller than MFI loans (average ₹9,920, $165). These translate to loan disbursements of the order of ₹10,000 and ₹15,000 respectively and do not provide reasonable funding for any entrepreneurial activity likely to yield a worthwhile income. As a result, borrowers are often compelled to seek additional loans for investment leading to borrowing from multiple sources and sometimes, consequently, to over-indebtedness[4]. PACS lend mainly for agricultural operations and are, therefore, limited to those owning agricultural land[5]. Similarly, the commercial banks have Kisan Credit Cards (for farmers) and General Credit Cards (for artisans) while Regional Rural Banks provide small loans to dispersed borrowers in rural and semi-urban areas.

Microinsurance has been promoted by the insurance regulator (Insurance Regulatory and Development Authority, IRDA) over the past ten years; India was one of the first countries to introduce microinsurance regulation, in 2005. As a result microinsurance products have become widely available mainly through linkage with loans provided by MFIs, RRBs and cooperative banks. Credit-Life insurance is an attractive proposition for lending institutions to promote since it provides assurance of loan repayment in case of a borrower's death. Most microinsurance policies, whether for life or assets, are provided as group insurance mediated through lending institutions, a proposition that is advantageous to both the lender and insurer. There are 21 life microinsurance products registered with the IRDA[6]. Other microinsurance products are also promoted in the same way but do not yet have extensive outreach. The older postal life insurance service has significant outreach but its cumbersome procedures limit its utility.

2.2.1. Prime Ministers Jan Dhan Yojana (PMJDY)

A national programme to accelerate financial inclusion through opening of at least one bank account per household in the country was unveiled in August 2014. The opening of bank accounts has been at a brisk pace and most states have reported complete coverage of all households in the state. The data on number of accounts opened in the PSIG states is found in Table 3. The access to savings accounts data indicated from the results of the FinScope survey would have undergone a significant change and should be read in the context of the subsequent development of opening of PMJDY accounts.

Table 3: PMJDY account access

State	No. of PMJDY Accounts (million)		
	Rural	Urban	Total
Bihar	13.83	6.19	**20.02**
Madhya Pradesh	9.43	9.37	**18.80**
Odisha	6.26	2.11	**8.37**
Uttar Pradesh	19.70	12.84	**32.54**
India	133.45	83.95	**217.40**

4 This is discussed further in Section 3 of the M-CRIL Microfinance Review 2014.

5 Also available, in theory, to leasehold farmers but since the practice of registering leases is not common it is difficult for leaseholders to get loans either from cooperatives or KCCs from the banks.

6 IRDA Annual Report, 2013-14, page 153.

2.2.2. Financial inclusion in the PSIG states lags behind the average for the country

The coverage of low-income families by inclusive deposit accounts (even without taking low value commercial bank deposit accounts) exceeds 100% for 3 of the PSIG states indicating significant multiple holding of such accounts. In UP, however, this coverage is just 44% and the difference in coverage with the other states is so large that the reporting of numbers of cooperative members appears to be faulty. The result of this low number of accounts is that the average deposit balance in such accounts in UP is nearly ₹12,000, compared to significantly lower levels in the other states and a national average of ₹7,400. Odisha performs reasonably but both Bihar and MP have low coverage relative to the national average.

Bank credit in all the states is growing at a reasonable rate but not substantially higher than the 10 – 12% inflation over the past few years and not much higher than the national average credit growth of 18.1%. Bank credit in Odisha in particular has grown at much less than the national average. Deposits per capita are 3% in Bihar and 7% of the average per capita income in Odisha while MP has a more reasonable 16%. Information from the All India Debt and Investment Survey (AIDIS) shows that 314 of every 1,000 households are indebted in rural areas and 224 of 1,000 in urban areas. In rural areas, 34% of debt still comes from moneylenders though institutional sources now account for 53%. State-wise information shows the low quantum of debt in Bihar and in rural Odisha though the low asset holdings in these areas result in high debt-asset ratios in rural as well as urban Odisha.

In this light the findings of the FinScope Survey will be invaluable for designing more appropriate financial products to meet the needs of all citizens.

Despite opening over 370 million basic deposit accounts (by October 2015) at banks and directly through business correspondents, effective financial inclusion is quite limited from a medium term perspective. Despite an increase in subsidies (DBTs) being disbursed through such accounts, the average number of transaction is still below 3 (though the absolute amount has increased to ₹4,500 ($75) over the past few years. Even active bank accounts are not used significantly for anything other than making deposits and withdrawals; just 6% of the population is even aware of mobile money while only 0.3% have actually used such services.

In this context, it is important to understand the extent to which these accounts and other mechanisms of financial inclusion discussed in this report are meeting the needs of the low-income population and other financially excluded bankable adults. The results of the FinScope Survey are therefore expected to provide feedback to key stakeholders such as policymakers, regulators, and financial service providers in order to enable the design and provision of increasingly appropriate financial services for the needs of all citizens.

Table 4: Key statistics on the PSIG states

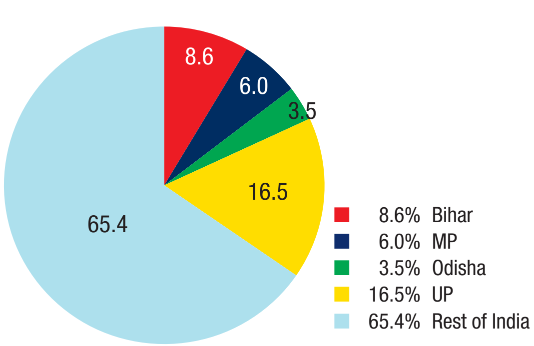
Indicators (31 March 2013)	Bihar	MP	Odisha	UP	Rest of India
Population, million (March 2011)	104	73	42	200	1,210
Population, million (March 2011)% Urban	11.3	27.6	16.7	22.3	31.2
Population, million (March 2011) % Literacy	63.8	70.6	73.4	69.7	74.0
GDP 2012-13 (₹ billion)	2 871	3 330	2 107	6 837	77 576
GDP per capita ₹	28 774	44 989	49 241	33 137	67 839
Poverty ratio, %	53.5	36.7	37.0	37.7	29.8
Unemployment rate (%), rural	20	7	30	10	16
Urban	73	29	42	29	34
Life expectancy at birth, years (female)	66.2	63.8	63.9	63.7	67.7
Life expectancy at birth, years (male)	65.5	61.1	62.2	61.8	64.6
Infant mortality rate, per 1000 live births	44	59	57	57	44

Source: Compiled by EDA Rural Systems Private Ltd (2015) from different sources

2.3. The supply of inclusive financial services – India and the PSIG states

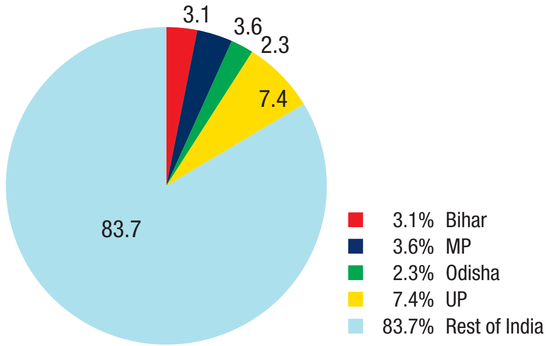
The Poorest States Inclusive Growth Project (PSIG) focuses on promoting inclusive financial services in four of the poorest of the 29 states (and 7 Union Territories) of India. The four states of Bihar, Madhya Pradesh, Odisha and Uttar Pradesh are all located in the east-central region of the country and are amongst the most populous states of India, accounting between them for 34.6% of the population but only 16.3% of the GDP in financial year 2012-13 as illustrated in Figures 3 & 4. Of particular note are UP and Bihar that together accounted for over 25% of the 1,210 million population in March 2011 but only 10.5% of the GDP of ₹77,576 billion (~$1.3 trillion) during 2012-13.

Figure 3: Distribution of population, PSIG 2011



Source: Census of India, 2011

Figure 4: Distribution of GDP, PSIG FY 2012-13

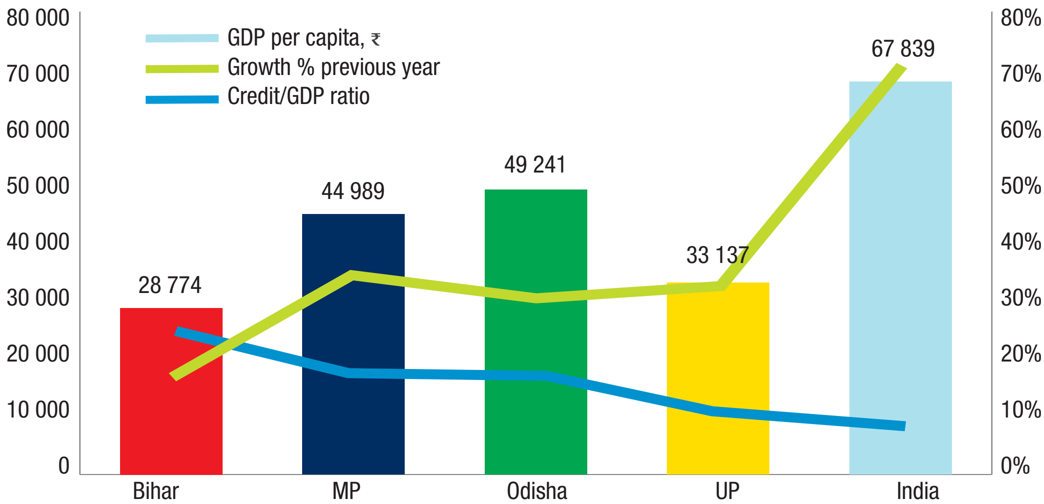


Source: Economic Survey, 2013-14

This situation is explained by the comparative GDP per capita information in Figure 5. The GDP per capita of UP and Bihar was less than half of the country as a whole in 2012-13 (₹68,000, $1,130)[7]. In terms of per capita income the two states are ranked 28 and 29 respectively amongst the 29 states while MP is ranked 24 and Odisha, 23. Both the latter states have better per capita incomes on account of significant returns from the primary sector: forestry and mining that do not always benefit the poorest families.

In recent years, however, all of these states have reported higher growth rates of per capita income than the country as a whole, with Bihar (25.6%), MP (18.5%) and Odisha (17.6%) being the three fastest growing states while UP (11.2%) is just ahead of the national average growth rate of per capita income of 9.7% for 2012-13.

Figure 5: GDP per capita growth (2012-13)



Source: Economic Survey, 2013-14.

7 The GDP of $1,130 in 2012-13 is distinct from India's GNI of $1,570 in 2013 as calculated by the World Bank using the Atlas method. GNI (Gross National Income) is different from GDP (Gross Domestic Product) as it includes income earned by a country from abroad. Naturally, GNI figures are not calculated for states within a country so GDP is the only basis for comparing intra-country regional economies

The indicators of economic vibrancy for India as a whole are good. The savings rate of 30.1% in 2012-13 is ranked a highly respectable 27 out of 134 countries for which data is available (in the World Bank's database) and in excess of most developed countries (though still significantly behind China's 50%). Like GNI though, savings rates for states are not available. However, the deposit and credit to GDP/SDP ratios for the banking sector are available and these are less encouraging than the growth rates of GDP per capita. The credit to GDP ratios of 17% for Bihar and 30-35% for MP, Odisha and UP are well below the national average of 71% (see blue line in Figure 5 and Table 5) as are the ratio of deposits in the banking sector to SDP. Bihar, in particular, lags substantially behind the national averages. All the PSIG states have received much less credit than the banking sector provides in other states with the C-D ratio at just 30-57% compared to the national average of 78%.

Table 5: Credit and deposit ratios in PSIG states, 2012-13

State	SDP/NDP ₹ in billion	Deposits	Credit	C-D ratio %	Deposits/SDP %	Credit/SDP %
Bihar	2 871	1 652	497	30.1	57.5	17.3
Madhya Pradesh	3 330	2 008	1 158	57.7	60.3	34.8
Odisha	2 107	1 440	663	46.0	68.3	31.5
Uttar Pradesh	6 836	5 150	2 247	43.6	75.3	32.9
India	82 560	70 513	55 065	78.1	85.4	66.7

Source: EDA Rural Systems Private Ltd (2015) literature review

As pointed out in the paper on the need for an inclusive banking structure, commissioned by the PSIG programme, the credit-deposit ratios for the PSIG states are lower than the 60% C-D ratio than the public sector banks were asked to achieve in 1980 for the rural and semi-urban areas of the country[8].

The combination of high growth rate and low credit to GDP and C-D ratios suggest the simultaneous effect of two phenomena in the economies of these states

1. A high level of public sector investment which means a lower level of debt financing as a factor in economic growth,
2. A high level of informal financing of economic activity in these states on account of a higher degree of informal enterprise there than in the rest of the country resulting in a significant proportion of debt in the economy going unrecorded.

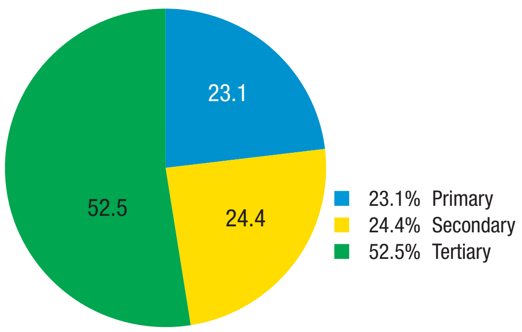
If the recent high growth rates of these states are to be sustained the financial inclusion effort will need to be reinforced and a concerted push will be required to improve the flow of credit to enterprises there.

[8] Mahajan, Vijay, 2014. Call for an Inclusive Banking Structure by 2019, Fifty Years after Bank Nationalisation. SIDBI/PSIG, DFID and ACCESS Assist.

2.3.1. Shifts in the economy that affect financial inclusion

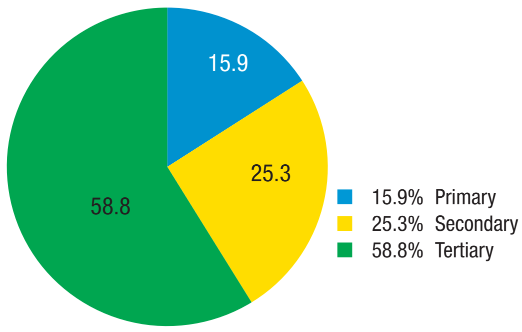
Another important development in the Indian economy over the past couple of decades has been the shift in share of production from the primary (agriculture and mining) sector to the tertiary (services – trade, tourism/hotels, transport, communication, finance & personal services) sector. Figures 6 & 7 show the sectoral shift in India's GDP from 23% in the primary sector in 2002-03 to just 16% in 2012-13 while the tertiary sector expanded its share from 52% to 59% of the economy.

Figure 6: Sectoral distribution of GDP, 2002-03



Source: Economic Survey, 2013-14

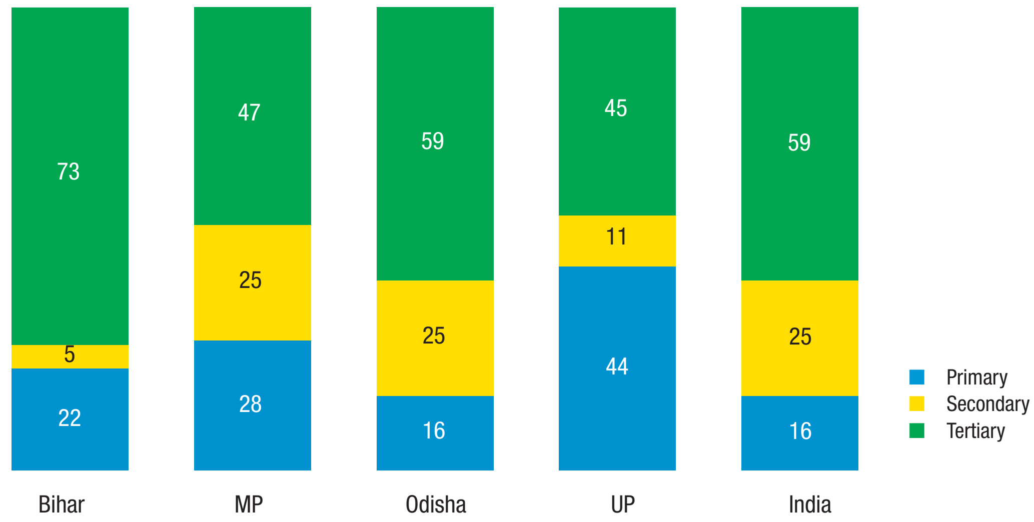
Figure 7: Sectoral distribution of GDP, 2012-13



Source: EDA Rural Systems Private Ltd (2015) literature review

While the PSIG states show significant similarities in terms of economic growth, there are substantial differences in economic structure. This is presented in Figure 8. While the sectoral distribution of Odisha's State Domestic Product (SDP) in 2012-13 closely matched that of India as a whole, those of Bihar and MP were significantly more agriculture oriented (at 22% and 28%) respectively while agriculture in UP still contributed a substantial 44% to SDP. Like Odisha, the secondary sector of MP matched that of the country (~25%) while UP and Bihar had smaller manufacturing sectors (11% and 5% respectively). MP and UP have 47% and 45% services sector income while Bihar has a substantial 73%.

Figure 8: Sectoral distribution of PSIG economies (%)



Sources: Economic Surveys of the respective states

The sectoral characteristics of the economies of these states are summarised in Table 6. Essentially, Bihar's poverty is intrinsically related to its low agriculture productivity and lack of mineral resources. Conversely, Odisha also has low agriculture productivity but is significantly better off due to its natural resources leading to large mineral-based production units and power generation capacity. MP has a vibrant commercial crop economy in the western part of the state and western UP has irrigated commercial agriculture. UP's economic indicators are dragged down by the lower productivity of the eastern and southern parts of the state though sugarcane is a major cash crop in the east as well. All the states have major tourist sites. UP is the best endowed with the Mughal architecture of Agra and Fatehpur-Sikri and the Hindu holy city of Varanasi. MP has the ancient temples of Khajuraho as well as animal sanctuary in the forests of central India while Odisha has the ancient Konark temple and the holy city of Puri. Bihar is a major destination for Buddhist pilgrims from all over Asia visiting Bodh Gaya (site of Buddha's enlightenment) and the site of the ancient university at Nalanda.

The drawback of all the PSIG states is that the high share of services there reflects low earning traditional services and transport while most of the modern software/IT and financial services are located in other states. Automobile production, power resources and the major pharmaceutical production centres are also outside these states. The modernisation of these states is limited by relatively low educational attainments and health indicators relative to the rest of the country. The national economy has significantly shifted towards relatively modern service activities like IT, communications and biotechnology , but the PSIG states have not been able to achieve the shifts at the pace of other states.

Table 6: Sectoral characteristics of PSIG economies

State	Primary	Secondary	Tertiary
Bihar	Fruit – mango, litchi, honey Low productivity food-grain agriculture, fish	Handloom and art based products	Traditional personal services, transport, communications, Buddhist tourism
Madhya Pradesh	Major producer of soya bean, pulses, gram, oilseeds, minor forest produce	Cement, soya products, ayurvedic medicines, power generation	Traditional personal services, communications, tourism
Odisha	Low food-grain production, minor forest produce, mining	Mineral based industries – steel, aluminium, power	Traditional personal services, communications, tourism
Uttar Pradesh	Food-grain production, sugarcane, livestock/milk production, fish	Handloom, handicrafts, leather products, sugar, electrical appliances and electronics, cement	Traditional personal services, communications, tourism, IT & software (near Delhi)

Source: EDA Rural Systems Private Ltd (2015) literature review

2.4. Related studies on financial inclusion in the PSIG

There have been other surveys and studies relating to financial inclusion that covered the PSIG states.

2.4.1. All-India Debt and Investment Survey

The All-India Debt and Investment Survey (AIDIS) is an important study that is carried out in intervals of about 10 years. The last survey was carried out in 2013[A] with the reference date of 30 June 2012. The survey provides information relating to household assets, household debt to formal and informal sector institutions, debt to asset ratio, disaggregated data on debts, holding of deposit accounts with banks and post offices and remittances received. The survey is a large format one, covering 8,000 villages/blocks and 110,000 households in all states in India. In the PSIG, the coverage is found in the Table 7.

Table 7: Distribution of the AIDIS survey

State	No. of villages/blocks	No. of households
Bihar	354	4 898
Madhya Pradesh	442	6 093
Odisha	298	4 127
Uttar Pradesh	974	13 543

The National Sample Survey Organisation (NSSO) – Government of India, also carried out a survey of agricultural households across the country to bring out a report on Key indicators of Situation of Agricultural Households in India 2013[B]. The survey report provides information on income and expenditure of agricultural households, sources of incomes, debt levels by source, access to and use of crop insurance.

While to a large extent the findings of FinScope survey are aligned to the findings of surveys carried out by NSSO in 2013 there are some aspects in which there are differences. In MP, access to credit and remittances as found in the FinScope surveys is considerably less than the levels reported in the AIDIS 2013 survey. The reasons for the difference could be the questionnaire design, underlying sample characteristics and the product level awareness of the respondents as explained in chapter one.

2.4.2. CRISIL Inclusix – financial inclusion index

CRISIL, a credit rating entity has been publishing an index of financial inclusion called CRISIL Inclusix in the country providing comparative data for the different states. The index seeks to measure penetration of financial services in terms of bank presence, credit and deposit penetration. The inclusion scores for the PSIG states for the year 2013 is found in Table 8.

Table 8: CRISIL Inclusix score

State	CRISIL Inclusix score	
	2013	2010
Bihar	30.2	21.4
Madhya Pradesh	40.5	29.1
Odisha	55.2	36.7
Uttar Pradesh	40.1	31.5
India	50.1	37.6

The progress in inclusion, as reported in Inclusix score, in Odisha, MP and Bihar has been better than the national growth rate, while growth in UP has been stagnant.

Source:
A Key Indicators of Debt and Investment in India 2013– National Sample Survey Organisation (GOI) 70th Round – December 2014.
B Key indicators of Situation of Agricultural Households in India 2013 - National Sample Survey Organisation (GOI) 70th Round – December 2014.

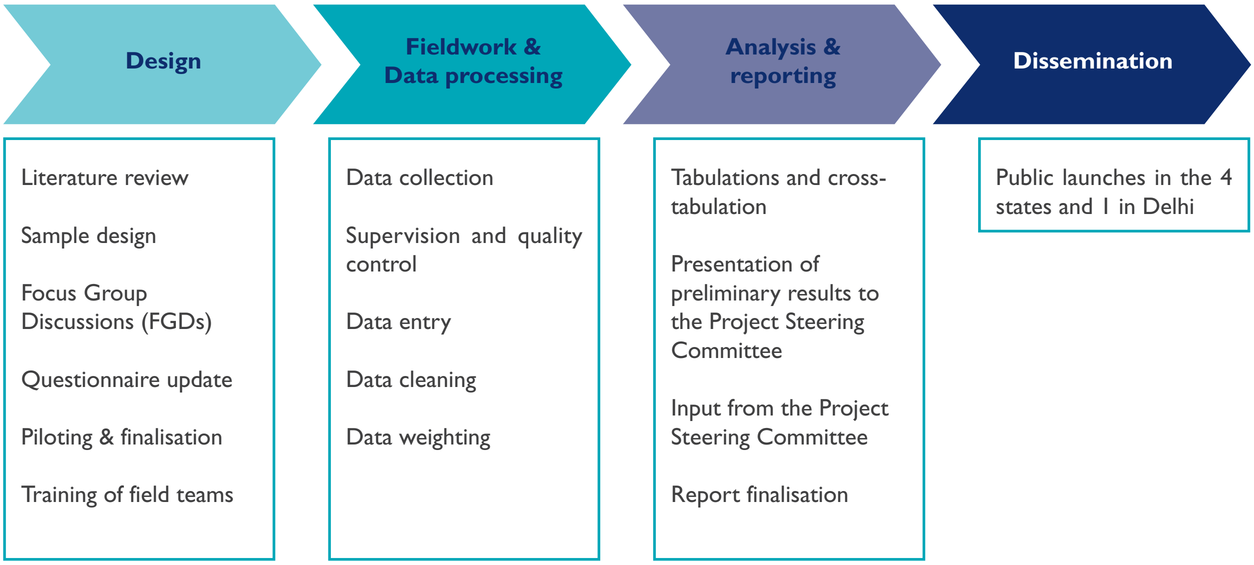
3. Methodological approach

The FinScope Consumer Survey PSIG India 2015 (also referred to as 'the study') was carried out with a representative sample of 16,000 households over 4 PSIG states, 530 villages and 270 wards and each village/ward having 20 households being covered with systematic random sampling.

3.1. Survey implementation

The study was implemented in four stages shown in Figure 9 below.

Figure 9: Survey implementation stages



3.1.1. Focus group discussions

Before commencing work on the study, FMT customised the survey tool to fit the context of the Indian background. Focus group discussions (FGD) were held before finalising the questionnaire in order to obtain advice and input from the field for the design of the questionnaire for the survey.

In this context of financial inclusion/exclusion, FGDs under FinScope survey were planned and prepared and conducted in the following districts, area, gender and age-groups.

Table 9: Location of focus group discussions

Sl. No.	FGD No.	State	District	Area	Financial Status	Gender	Age-group
1	FGD$_{1}$	Madhya Pradesh	Gwalior	Urban	Included	Male	36 – 50
2	FGD$_{2}$ (SC)	Madhya Pradesh	Ratlam	Rural	Included	Female	36 – 50
3	FGD$_{3}$	Madhya Pradesh	Dhar	Urban	Excluded	Male	18 – 35
4A	FGD$_{4A}$	Madhya Pradesh	Betul	Rural	Included	Male	51 – 65
4B	FGD$_{4B}$	Madhya Pradesh	Betul	Rural	Included	Male	51 – 65
5	FGD$_{5}$	Madhya Pradesh	Satna	Urban	Excluded	Female	36 – 50
6	FGD$_{6}$	Odisha	Bhubaneshwar	Urban	Included	Male	51 – 65
7	FGD$_{7}$ (ST)	Odisha	Kendujhar	Rural	Included	Female	18 – 35
8	FGD$_{8}$	Odisha	Koraput	Urban	Excluded	Female	18 – 35
9	FGD$_{9}$	Odisha	Bolangir	Rural	Excluded	Female	51 – 65
10	FGD$_{10}$	Bihar	Saharsa	Rural	Included	Male	18 – 35
11	FGD$_{11}$	Bihar	Buxar	Urban	Included	Female	18 – 35
12	FGD$_{12}$	Bihar	Sheohar	Rural	Included	Female	51 – 65
13	FGD$_{13}$ (Muslim)	Bihar	Patna	Urban	Excluded	Male	36 – 50
14	FGD$_{14}$	Bihar	Gaya	Rural	Excluded	Female	36 – 50

For the purpose of the FinScope FGD, the Reserve Bank of India (RBI), definition of financial inclusion is considered as those financially included people who had transactions of, at least, one of the products/services of the banking, insurance, established MFIs/SHGs. Members of Primary Agricultural Co-operative Societies (PACS) were considered as included. Adults that obtained services from informal financial service providers like moneylenders, chit fund, etc., were considered as excluded.

Some key findings drawn from the FGDs are summarised below:

- **Farming/Agriculture** – FGD participants were encouraged to articulate their responses with respect to problems in farming/agriculture activities. They expressed their concerns related to some activities already mentioned in the draft questionnaire. Generally, participants could express two to three common problems; but when they were prompted through showcard, they could express their concerns. Some new problems not mentioned in the draft questionnaire were expressed by the participants, which were incorporated in the questionnaire.
- **Mobile money** – During FGDs, it was disappointedly found that overall 96% participants never heard about mobile money whereas a minuscule 4% heard about mobile money through TV advertisements. None of the participants in Odisha knew about mobile money.
- **Non-farming businesses** – Participants who carried non-farming businesses also emphatically acknowledged problems mentioned in the options of the particular question of the draft questionnaire. Therefore, all options of the question had to be kept intact in the final questionnaire for detailed FinScope survey. However, participants provided new problems worth incorporating into the questionnaire like 'low wages', 'lack of capital', 'high competition', 'lack of business information' and 'lack of skill'.

The findings of the FGDs contributed to the questionnaire design allowing FinMark Trust to customise the questionnaire to the relevant aspects.

3.1.2. Questionnaire design

After identifying data elements to be collected, the questionnaire was designed, developed and finalised (to suit the evolving context in India) in consultation with the FMT, EDA, SIDBI, including workshops to obtain stakeholders' input) under the supervision of PSC members. The draft questionnaire was translated into Hindi (for Bihar, UP and MP) and Odiya for Odisha.

The survey questionnaire has the following structure: socio-economic information, household socioeconomic situation, perceived risks and coping mechanisms, financial literacy, experience with formal financial institutions providing account related services, remittances, savings and investment, credit and loans, insurance, informal mechanisms, physical access to institutions, overall perception of selected financial service providers, communications and use of technology, access and use of mobile money and everyday quality of life.

3.1.3. Piloting the FinScope questionnaire

Before commencement of the FinScope Survey, a pilot study was necessary for pre-testing and debugging of the draft questionnaire with respect to translation of questionnaire, introduction to respondents, interview flow, interview duration, respondent selection criteria, understanding of questions, instructions and routing, terminology, orientation training of supervisors and to test the effectiveness of training and field manuals.

In each state under coverage of FinScope Study, a sample of size 10 (5 in rural area and 5 in urban area) was covered between 28th March – 2nd April 2015. Households and respondents were covered following systematic random sampling and Kish Grid as per the FinScope methodology. Piloting of questionnaire took place under the supervision of FinMark Trust. The representatives of EDA Rural Systems Private Ltd. were personally present during the piloting in Uttar Pradesh and Bihar. The representative of SIDBI also monitored the piloting in the state of Odisha. All the observations of the pilot study led to further refinement of the questionnaire.

3.1.4. Generic FinScope sampling methodology

The FinScope methodology requires representative probability sample drawn systematically using probability proportional to size sampling (PPS) method. A multi-stage sampling methodology is applied which entails selection of enumeration areas (EAs) /villages using recent census or population estimates using PPS followed by the selection of households as well as the selection of one adult in the selected household using a Kish Grid. Using the Kish Grid ensures that respondents are randomly selected and therefore avoiding bias selection.

The survey population refers to the adult population in the PSIG states of India including both rich and poor, individuals residing in urban and rural areas, women and men. An adult in this case refers to an individual who can open a bank account, which – in most countries – is 18 years or older. Anyone who is younger than 18 years of age at the time of the survey is excluded from the sample universe. Also excluded are those individuals who reside in national parks, institutionalised settings, such as students in dormitories and persons in prisons or nursing homes.

The FinScope sampling design is typically a three stage sampling with enumeration areas (EAs) – villages or wards in the four states – as primary sampling units (PSU), households as secondary sampling units (SSU), and individuals selected by Kish Grid from a list of eligible respondents at every selected household as tertiary sampling units (TSU).

1. Target population: Adult population of ages 18 years or older in the four states
2. Sample representation levels:
   a. State
   b. Urban/rural
3. Total recommended number of minimum households to be interviewed is 16,000
4. Sample was allocated disproportionally to all states
5. Population sampling frame: Recent census Enumeration Areas /villages
6. Stratification: States and urban and rural levels
7. EAs were grouped in clusters
8. Selection method: EAs/villages selected using Probability Proportional to Size (PPS) systematic sampling procedure. In the case of PSIG, the clusters were the primary sampling units
9. Household sample size per each EA/village in terms
   a. Urban
   b. Rural
10. Household selection using systematic random sample
11. Selection of an individual adult within the selected household respondent using a Kish Grid

The generic sampling approach used in FinScope is presented in Figure 10.

Figure 10: Diagram of generic FinScope sampling design

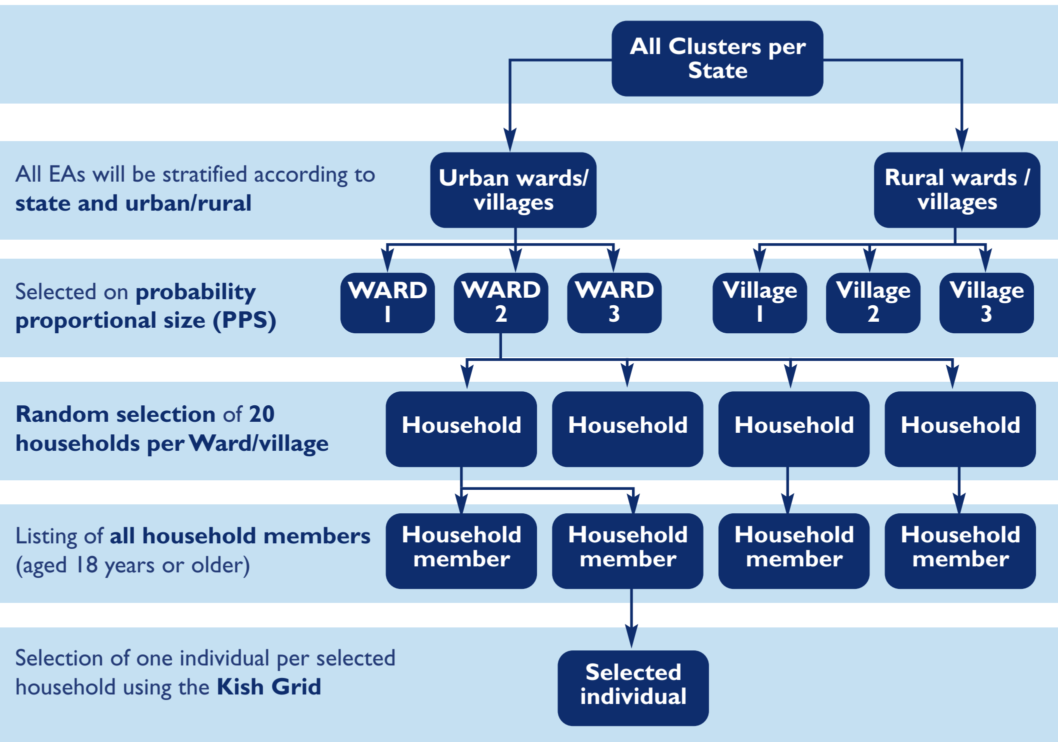


Table 10: Survey sample and fieldwork results

State	No. of Villages	No. of Ward	Total No. of Villages & Wards	No. of Rural respondents	No. of Urban respondents	Total No. of respondents	Achieved Sample %
Bihar	148	55	203	2 960	1 100	4 060	100
MP	111	71	182	2 220	1 420	3 640	100
Odisha	100	45	145	2 000	900	2 900	100
UP	171	99	270	3 420	1 980	5 400	100
Total	**530**	**270**	**800**	**10 600**	**5 400**	**16 000**	**100**

3.1.5. Enumerator training

Enumerator training was done over a period of 3 days (two days class-room training in 8 sessions, each session of two hours duration, and one day mock field training). Orientation training was organised and conducted in each state of coverage under the FinScope Survey. The enumerator training aimed at achieving success of the entire survey project at all stages, to be implemented partly by the interviewers and supervisors, who played an essential role in collecting data and information, as accurate as possible, and in going through the field process without any problems. The training of enumerators was done in each state sequentially by AFC in July 2015, followed by fieldwork. EDA and SIDBI participated in some of the training sessions and observed the process and also gave some feedback where necessary.

*Please refer to separate technical reports for the actual training sessions in each of the four states.

3.1.6. Data collection and processing

Fieldwork commenced on the 3rd of July 2015 in Madhya Pradesh, 11th of July 2015 in Bihar, 20th of July 2015 in Odisha and the 22nd of July 2015 in UP. Data entry was done in MS Excel and the resulting database was converted into SPSS (Statistical Package for the Social Sciences) format.

- Within each selected village/ward (refer to technical reports) 20 households were randomly selected in a systematic manner, i.e., 4 households (each at regular intervals) in each of 5 directions (North, East, Centre, South and West) of village or ward had human settlement in oval, circular, rectangular or square shape. Similarly, if village or ward was located along a road or river, then 6-7 households (each at regular interval) had been selected in each of 3 directions (North, Centre & South or East, Centre & West)

- Supervisors, Enumerators and Auditors were provided Google location maps to have an idea of alignment of human settlement in a particular village or ward. On this basis enumerators could choose the direction and ascertain the number of households to be covered and in which direction. These directions were mentioned in the questionnaire also so that Auditors of both AFC and EDA Rural Systems could check whether the households had properly been covered or not

- Enumerators sort assistance from the village headman/ward councilor/resident welfare association, Anganwadi worker, prominent person, etc. to get an idea of socio-economic distribution of the population in that village or ward

Further to the technical aspects of data collection were quality control measures which were internal AFC quality control mechanisms summarised below:

1. At a minimum, quality control measures included verification of the following:
   - fact that the interview took place
   - proper application of the sampling plan in selecting the households
   - approximate duration of the interview
   - proper administration of the various sections of the questionnaire
   - enumerator's general adherence to professional standards

2. AFC has standard procedures that require its field supervisors to make a daily report on the progress of work unless they are located in villages where there is no means of communication to do that. This is to ensure that AFC can provide administrative and logistics support to the supervisors and interviewers for data collection and supervision.

3. The Audit team undertook in-house auditing of the process of the field survey and back-check respondents through field visits and telephonically as per the audit sample plan and reported to the State Team Leader for immediate corrective measure for quality survey.

4. Each completed questionnaire was checked twice. First, the field supervisor checked the questionnaires collected by the interviewers before they left the village/ward where the interviews were conducted so that they could reconfirm answers given by the respondents, if necessary. Secondly, the editing team at the AFC office checked the questionnaires to ensure that they were properly completed.

3.1.7. Weighting of the data

In order for the sample estimates from the survey to be representative of the adult population, it is necessary to multiply the data by a sampling weight, or expansion factor. The basic weight for each sample household or individual would be equal to the inverse of its probability of selection (calculated by multiplying the probabilities at each sampling stage). The weighting was based on the Census 2011 estimates. The weighting procedures are available in the annexures.

3.1.8. Analysis and reporting

Analysis and reporting of the data was done by FMT after the weighting of the data. The report was written from mid December 2015 to end of January 2016 and benefited from inputs from the technical and steering committee in February. The next chapters present the results of the FinScope survey. The results are based on weighted data- mainly individual weights and in some cases household weighting was used where the questions were household related. Please note that figures in this report have been rounded as some tables or graphs may not add up to 100%.

4. Socio-economic profile

This section presents the FinScope results on the socio-economic status of the 4 PSIG states with the objective to showing a clear profile of the PSIG adults. The estimated adult population of the 4 PSIG states were 266 655 543 with the biggest population of adults being in Uttar Pradesh (46%) which is almost double the adults than the second largest state – Bihar (24%). Odisha has the smallest adult population of the four states (12% as illustrated in Figure 11). On average the PSIG states have more males (52%) than females (48%) with the largest population of males in proportion to females being in the state of Bihar (54% being male). Together, the four states have about 77 million households with about 43%of them (33,4 million) being in UP; 18,8 million in Bihar; 15 million in MP; and 9,6 million being in Odisha.

Figure 11: Adult population breakdown by state (%)

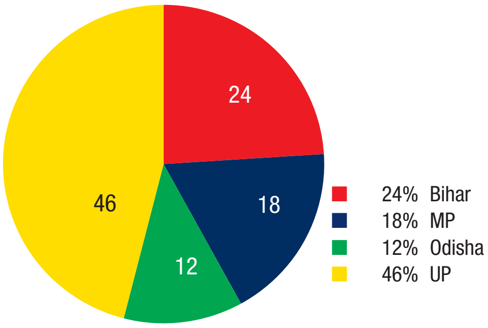
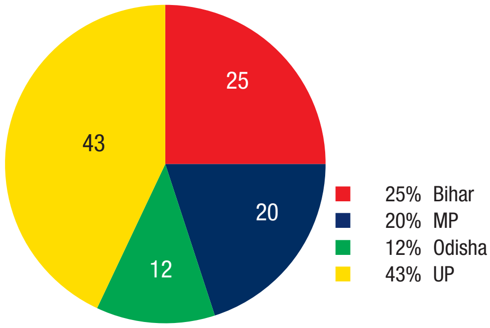


Figure 12: Household population breakdown by state (%)



Uttar Pradesh – has a total adult population of 123 million having the biggest adult population amongst the PSIG states. UP has 77% (95 million) of its adults residing in rural areas. The state is a home to about 33,4 million households.

Bihar – has a total adult population of 62,9 million. Bihar has 88% (55,4 million) of its adults residing in rural areas. Bihar has about 18,8 million households.

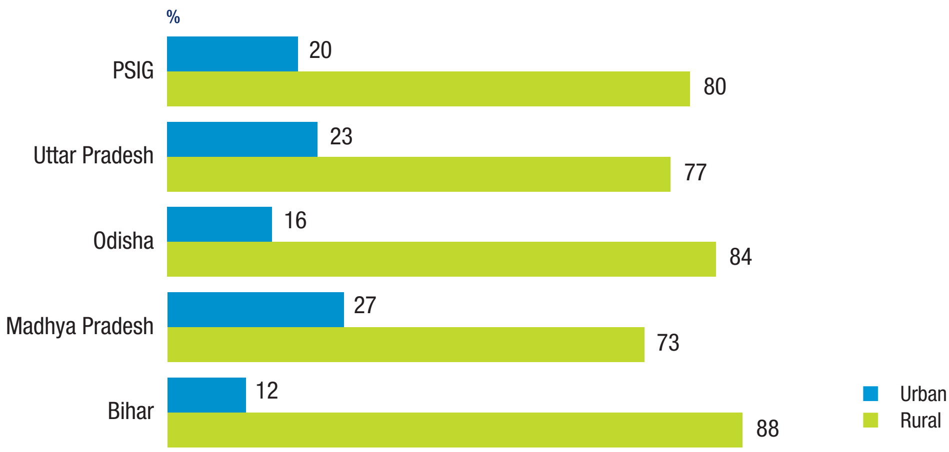
Madhya Pradesh – has a total adult population of 48,7 million. MP has 73% (35,3 million) of its adults residing in rural areas. The state houses about 15 million households.

Odisha – has a total adult population of 31,9 million. Odisha has 84% (26,9 million) of its adults residing in rural areas. Odisha also has the fewest number of households at under ten million (9,6 million) at the time of the study.

4.1. Demographic characteristics of the PSIG states

4.1.1. Area type and Gender

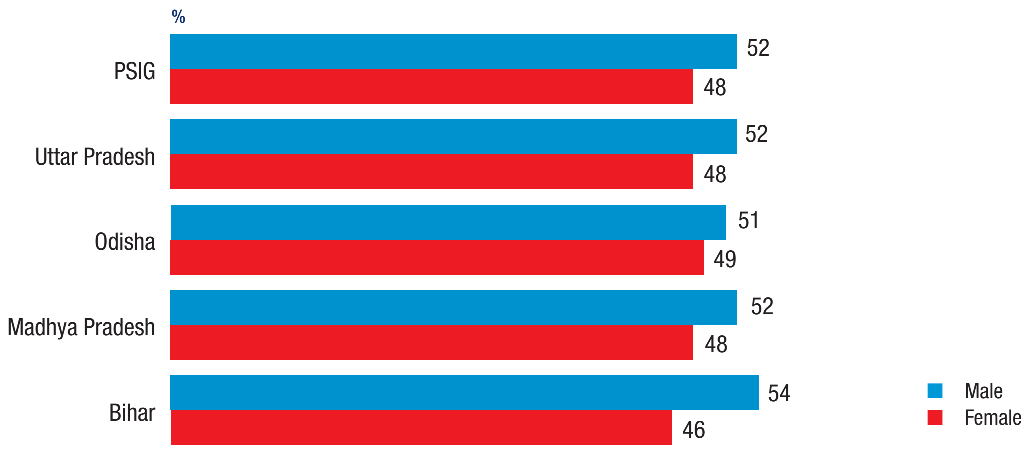
Figure 13: Urban/Rural distribution



The bulk of the population reside in rural areas. The study further reveals that in the rural areas there are more males than females in all four states with almost an identical distribution of male to female of 53% to 47% respectively in all three states besides Odisha with 51% males to 49% females in the rural areas. Noteworthy, is the distribution of males and females in the urban areas of the PSIG states. Both Odisha and UP have an equal distribution of males to females with Bihar having more males in its urban areas than females at 54% to 46% respectively. MP has fewer males at 48% of its urban population.

The PSIG states generally have more males than females shown in each of the four states in Figure 14. The PSIG states show that there are more males (52%) than females (48%). The state of Bihar has more males (54%) in comparison to the other PSIG states. The overall India sex ratio for the India Population Census of 2011 revealed 940 females per 1000 of males, which was an upward trend from 2001. The main cause of the declining female birth rates in India is suggested to be the unfavorable treatments of the girl child at the time of birth. As will be explained later in the education sub-section, a contributing factor to gender bias might be inadequate education.

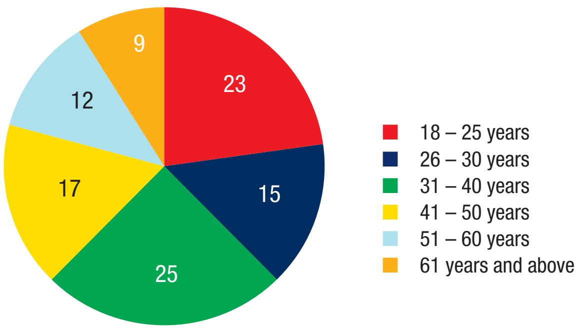
Figure 14: Gender



4.1.2. Age

The age distribution of the PSIG populace can be described as fairly young with most of the population (62%) being under the age of 40 years. According to the BBC report of 2011[9], India is set to be the largest population by 2030 and the youngest population by 2020 with an estimated adult average age of 29 years. The average age of the PSIG adult population is just under 39 years with a median of 36 years.

Figure 15: Age distribution of the PSIG states



The state of Bihar has a relatively higher senior population at 25% (those aged 51 years and above) while the state of MP has a larger youth population (40% aged between 18 and 30 years).

9 Basu, Kaushik (25 July 2007). "India's demographic dividend". BBC News.

Table 11: Age distribution per state (%)

Age category	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
18 – 25 years	18	24	19	25	23
26 – 30 years	16	16	14	13	15
31 – 40 years	26	27	25	24	25
41 – 50 years	16	15	19	17	17
51 – 60 years	14	12	12	11	12
61 years and above	11	7	11	9	9

4.1.3. Religion and community category

Most of the Asian religions were birthed in India namely Hinduism, Buddhism, Jainism and Sikhism. India is one of the most religiously diverse nations of the world, which plays a definitive role in the livelihoods of many of its people. As with many religions globally, the religious affiliations of a household or an adult have an impact on the financial choices and products that they can interact with. Table 12 below presents the religious affiliations of the adults in the four PSIG states.

Table 12: Religion and community category (%)

Religion	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Hindu	86	92	96	88	89
Muslim	14	8	1	12	11
Sikh	0	0	0	0	0
Christian	0	0	3	0	0
Others	0	0	0	0	0
Community category	**Bihar**	**Madhya Pradesh**	**Odisha**	**Uttar Pradesh**	**PSIG**
General	20	10	31	22	21
Other backward class	51	50	32	47	47
Scheduled Castes	22	20	18	29	24
Scheduled Tribes	7	18	19	1	8
None of these	0	1	0	0	0

The study explored adults belonging to certain community categories. The four main categories are General, Other Backward Class (OBC), Scheduled Castes (SC) and Scheduled Tribes (ST). These are also referred to as 'caste category' and are also shown in Table 12. The table shows the state of Odisha has the highest proportion of adults in the General category (31%) and lowest proportion in the OBC category (32%). SC categories are more popular in UP with almost a third of the community belonging to this category. Both MP and Odisha have similar proportions of adults in the ST category at 18% and 19% respectively while the lowest is UP with only 1%.

4.1.4. Marital status

Many of the adults in the PSIG states are married (79%) with the highest proportions being in Bihar (85%), MP and Odisha both at (81%). These figures show that marriage is still an important institution in the Indian community with no percentage of adults reported to be divorced. Only 1 in 20 of the adults reported to be widowed.

Table 13: Marital status (%)

Marital status	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Un-married	9	14	15	18	15
Married	85	81	81	75	79
Separated	0	0	0	0	0
Divorced	0	0	0	0	0
Widow/widower	5	5	4	6	5

4.1.5. Education

The education levels of India show that 74%[10] are literate with the PSIG states showing that about seven out of ten adults have some form of education (69%). The largest population of adults that have no (formal) education are in the state of Bihar (39%) with the least being in Odisha (19%) as shown in Table 14. The highest proportion of adults who have vocational education or are graduates and above are in UP (11%) with the least being in MP (5%).

According to the study, double the females (42%) have no formal education compared to their male counterparts (21%) at PSIG level. The same applies to the proportion of adults that have a graduate qualification and above with more males (10%) than females (5%). Generally, in the patriarchal setting of the Indian family, girls have had less status and privileges than boy children[11]. However, the study reveals that slightly more females (8%) than males (7%) have pre-primary education suggesting this view is changing over time (this is the only education level where females have higher numbers than males) which shows a deficit of educational investment in females that further requires the continued role by government to provide incentives for girls' school attendance. The study findings are consistent with the education index of the four PSIG states, which show that Odisha has a better education index of the four states[12].

Table 14: Highest level of education

Age category	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
No (formal) education	39	33	19	29	31
Pre-primary education	7	10	14	5	7
Primary education (till 5th)	10	13	16	12	12
Middle class pass (6th – 8th)	15	17	16	17	16
Secondary class pass (9th – 10th)	16	14	20	15	16
Higher secondary class pass (11th – 12th)	7	9	8	11	9
Vocational education	1	0	1	1	1
Graduate and above	7	5	7	10	8

4.2. Agricultural involvement, income and poverty

4.2.1. Farming

As can be observed in Figure 16, the PSIG states involvement in farming at household level is 58%. Of those that are involved in farming, Table 15 shows that few farmers are producing exclusively for the market with only 2% of household farmers being market oriented. The bulk of household farmers are a mix of both consumers and sellers of produce with MP and UP being the highest at 70% and 61% respectively. In Odisha and Bihar, farmers are mostly at a subsistence level, producing for own consumption.

Table 15: Type of farming (of those involved in farming) (%)

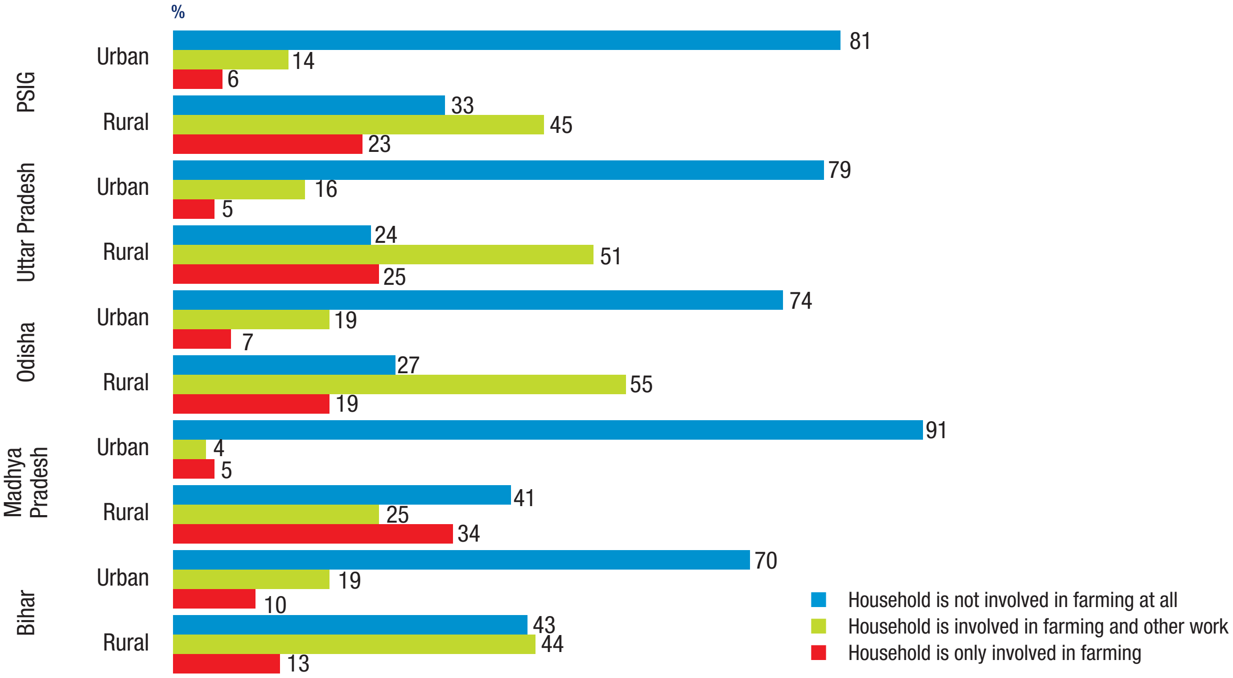
Farming type	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Consumption only	49	28	50	37	40
Selling only	2	1	6	2	2
Both consumption and selling	49	70	44	61	58

10 Literacy rate of India is as at the Census of 2011 while a higher literacy rate for the youth (18-25) at 90% was recorded by the UNESCO Institute for Statistics in 2015.

11 Dube, L (1988). On the construction of gender: Hindu girls in patrilineal India.

12 Bhandari, P. (2012). 'Refining State Level Comparisons in India'. Planning Commission – Government of India.

Figure 16: Household involvement in farming



Of the adults involved in farming - using source of income related to farming and not household involvement – males earning income from farming is much higher (70%) than females (30%). According to the study, male adults in the PSIG earning an income from farming/farming activities constitute 36% of the male population showing a significant population earning a living from farming. Only 16% of the female population earn an income from farming. Many households, although involved in farming do not necessarily earn an income from their produce indicating a large number of smallholder subsistence farmers.

4.2.2. Income

Tables 16 and 17 summarises the results of the main source of income at individual and household levels respectively. The biggest proportion of household main income source is largely salary or wages from public enterprises (excluding wages from agriculture work) with 47% of households at the PSIG level. The state of Odisha shows that the main source of income for 65% of households is farming or farming activities and only 14% salary or wages. The state of Bihar shows the opposite, while only 25% of household depend mainly on farming/agriculture 54% of households depend on salary or wages as the main household source of income. In addition Bihar shows the highest proportion of adults that depend on remittances from outside the household (8%).

Table 16: Main source of income at household level (%)

Income source	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Salary/wages from government/state owned enterprise (e.g. teacher, anganwadi worker)	3	4	3	3	3
Salary/wages from private company	6	4	4	10	7
Salary/wages from non-farm work (i.e. domestic worker, etc.)	46	42	3	39	36
Wage from agri-labour work	1	4	29	3	6
Wages from MGNREGA work	0	0	3	0	1
Self-employed (own non-farm business)	12	12	18	8	11
Self-employed – farming, cultivation	22	33	35	32	30
Self-employed – livestock	1	0	1	1	1
Pension or annuities	1	1	1	1	1
Elderly/disability assistance from government	0	0	1	0	0
Remittances (money sent by someone living outside)	8	0	0	2	3

When one looks closer at the household main source of income in Table 16 one observes that there is a considerable amount of adults at household level that have their own businesses (including farming) as the main income source; coming in second with 42% after salary or wages for the PSIG states combined. This is highly linked to household involvement in farming activities displayed in Figure 16. Overall, one observes that 42% of households in the PSIG states are not involved in farming activities at all. At state level, Madhya Pradesh has the highest proportion of households not involved in farming (54%) but has the most adults having farming as an income source as shown in Table 17. As shown in Table 6 other states are not productive in agriculture, which may lead one to conclude, that most of the farming involvement is largely subsistence. 35% of adults source their income from wages from informal sector with 30% from self employment in farming. The study also revealed that a higher proportion of those in the age category of 41 to 60 years tended to get income from farming than in other age brackets.

Table 17: Sources of income at individual level (%)

Income source	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Salary/wages from government/state owned enterprise (e.g. teacher, anganwadi worker)	2	3	2	2	2
Salary/wages from private company	4	3	3	6	5
Salary/wages from non-farm work (i.e. domestic worker, etc.)	33	38	2	22	25
Wage from agri-labour work	1	4	25	2	5
Wages from MGNREGA work	0	1	5	1	1
Self-employed (own non-farm business)	9	11	13	6	8
Self-employed – farming, cultivation	17	31	25	18	21
Self-employed – livestock	3	0	1	2	2
Pension or annuities	1	2	2	2	1
Elderly/disability assistance from government	1	2	3	2	2
Remittances (money sent by someone living outside)	6	0	0	1	2
Received money from household members	30	20	38	36	32
Do not receive money	0	0	0	5	2

4.2.3. Poverty

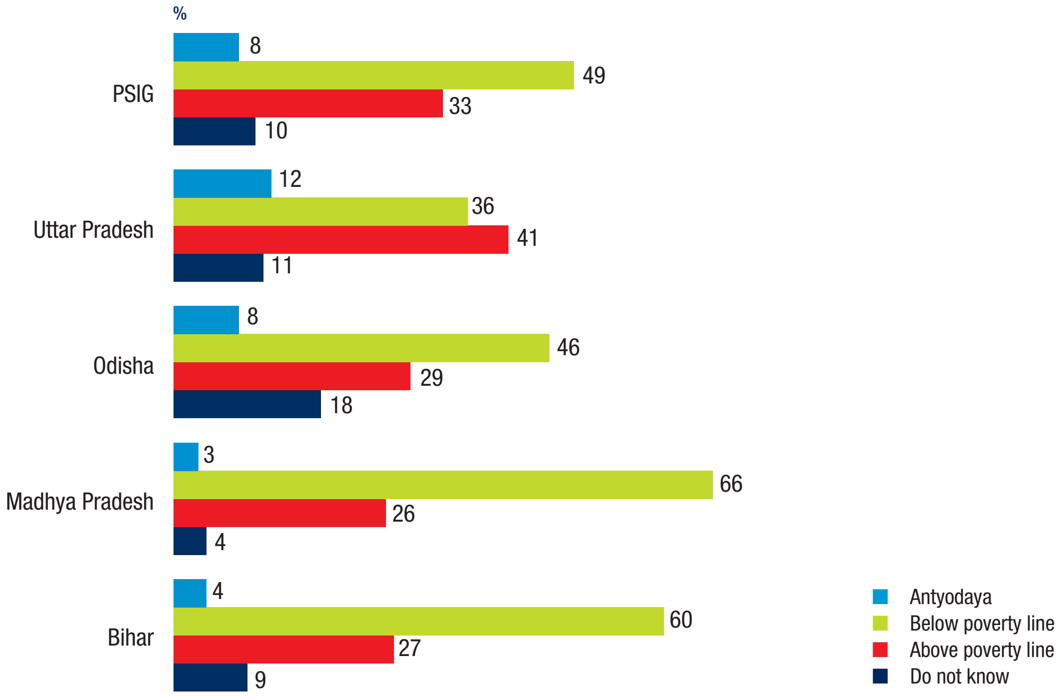
India's Department of Food, Civil Supplies & Consumer Affairs is entrusted with ensuring that essential commodities are under the Public Distribution System to reach all citizens to ensure food security regardless of an individual's position economically or otherwise. FinScope PSIG 2015 explored the household economic status and the results are displayed in Figure 17. Household economic status has three main classifications of households namely, beginning with the poorest, Antyodaya Anna Yojana (AAY), Below Poverty Line (BPL), and Above Poverty Line (APL). Under the AAY scheme (being the poorest of the BPL families) the families are given the most affordable price of rice at ₹3 per kg (compared to ₹9.50 for the APL families) which initially targeted 5% of the population who could not afford two meals a day.

The study also looked at some of the poverty indicators based on some of the household questions asked in the FinScope survey and linked the results to the benchmarked norms. This analysis helps to understand the poverty rate in a given population for different poverty lines using 10 indicators that are linked to household per capita expenditure. As part of the FinScope India survey, data was collected for 16,000 respondent households and analysed to understand the poverty rate within the sampled population. This analysis was done by urban and rural population as poverty benchmarks are available for rural and urban populations of each state. In the poverty outreach analysis, consideration was given to the bottom two quintiles of the population and this is largely captured by $1.25/day for rural areas and $1.88/day for urban areas.

In rural Bihar, 45% of respondent households fall below $1.25/day while the state benchmark is 56%. In urban Bihar, 72% of respondent households fall below $1.88/day while the state benchmark is 64%. In rural Madhya Pradesh, 34% of respondent households fall below $1.25/day while the state benchmark is 45%. In urban Madhya Pradesh, 59% of respondent households fall below $1.88/day while the state benchmark is 49%. In rural Odisha, 40% of respondent households fall below $1.25/day while the state benchmark is 51%. In urban Odisha, 64% of respondent households fall below $1.88/day while the state benchmark is 48%. In rural Uttar Pradesh, 35% of respondent households fall below $1.25/day while the state benchmark is 46%. In urban Uttar Pradesh, 63% of respondent households fall below $1.88/day while the state benchmark is 53%. These figures show that there were some differences between the FinScope based figures and the benchmarked figures.

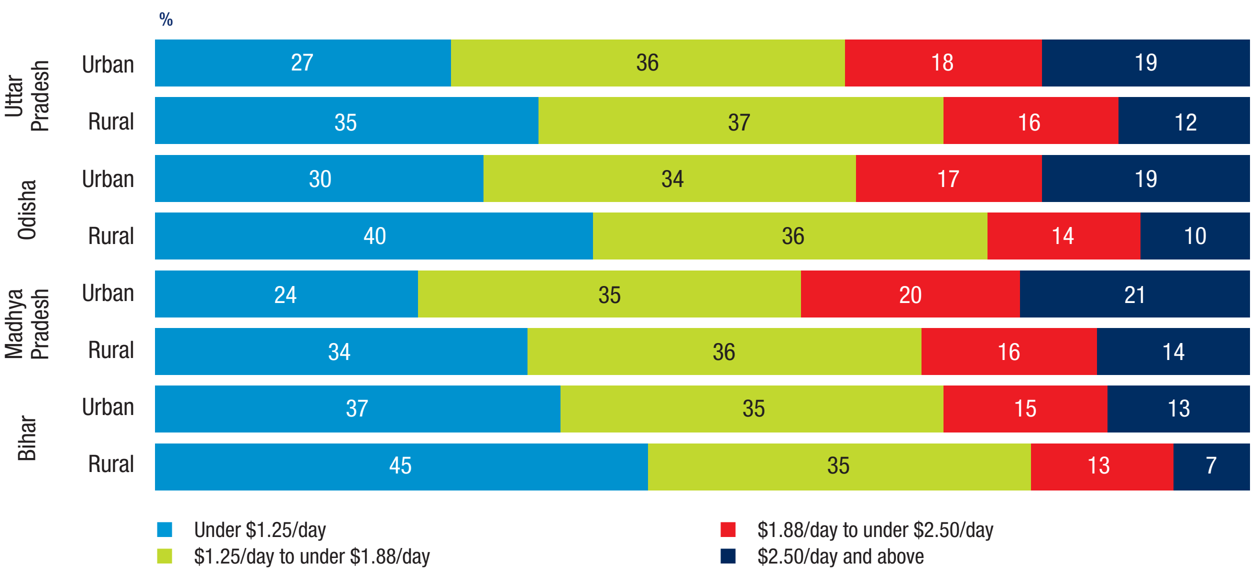
As shown in Figure 17, those living below the poverty line amount to 57% (AAY plus BPL) of the PSIG states. When looking at the states, MP has the highest percentage of adults living below the poverty line at 69% closely followed by Bihar at 64%. In the states of MP and Bihar high poverty levels are accompanied by the high proportion of adults without formal education among the four states at 33% and 39% respectively. Further, both states also show the highest number of households not involved in agriculture which may contribute to more households failing to provide food from farming for their consumption (see Table 15).

Figure 17: Household economic status



The poverty indicator bands were created using FinScope data for each state. Looking at the overall state levels of poverty in Figure 18, it shows that Bihar has the highest proportion of households living on under $1.25/day both at urban and rural levels while the state of MP has the highest proportion of households living on $2.50/day and above. This is also confirmed when looking at the household economic status, MP has the least proportion of households living below the poverty line as observed in Figure 17. Generally, across the different states, households living in the $1.25/day to $1.88/day band show no significant differences in proportion amongst rural and urban households yet significant variances are noticed in the much higher and lowest bands.

Figure 18: Poverty indicator bands



4.3. Asset ownership and energy usage

The source of energy available in largely rural communities in the PSIG would be those that are easy to access at low cost to the household. FinScope PSIG 2015 collected information (at household level) on the main energy used for cooking. Overall, the PSIG households mainly use wood, coal or dung as the main energy/fuel for cooking (79%) followed by LPG/PNG (20%). The use of electricity is minimal for cooking (if at all in some states) with a total of just under 35,000 households using it for cooking purposes in the PSIG. This is related to the low ownership of electrical appliances such as television sets or sewing machines indicating low access to electricity as displayed in Table 18.

Figure 19: Main energy/fuel used for cooking

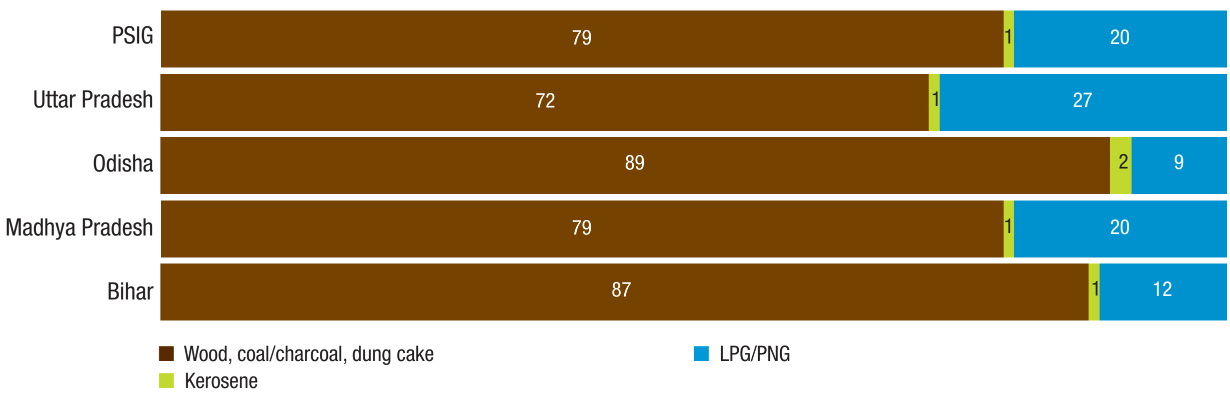


Table 18 below summarises the results of household ownership of different assets.

Table 18: Household asset ownership ranked at PSIG level (%)

Assets	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Mobile handset	73	88	89	82	82
Television	32	29	54	51	43
Almirah/wardrobe/dressing table	10	14	34	34	24
Motorcycle/scooter/moped	11	11	27	18	16
Sewing machine	6	12	28	18	15
Casserole, thermos, thermoware	1	2	8	7	5
DVD player	1	4	6	5	4
Car/Jeep	1	1	3	1	1
Landline telephone	0	0	1	1	1
None of these	21	9	6	11	12

Interestingly, there is relatively high household ownership of mobile handset in the PSIG states with a total of 82% of households owning a mobile phone. Even higher are the states of MP and Odisha with Odisha also having the largest number of mobile-owning adults living in the rural areas. Household ownership of assets attempts to display the living standards of adults indicating a quality measurement of their livelihoods. It would show from Table 18 that most households owning relatively more expensive assets such as cars or motorcycles reside in Odisha (3% owning a car or Jeep and 27% owning a motorcycle or moped).

Table 19 presents the percentage of household asset ownership by states and by area location (i.e. urban/rural).

Table 19: Household ownership of assets by area type (%)

Assets	Bihar		Madhya Pradesh		Odisha		Uttar Pradesh		PSIG	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Mobile handset	73	73	88	87	89	87	81	82	81	82
Television	33	29	28	32	55	52	51	52	42	44
Almirah/wardrobe/dressing table	10	10	14	16	35	33	34	33	24	25
Motorcycle/scooter/moped	11	11	10	12	27	25	18	20	16	17
Sewing machine	6	5	12	13	28	28	18	17	15	16
Casserole, thermos, thermoware	1	0	2	3	8	8	7	7	4	5
DVD player	1	2	3	4	6	6	5	5	4	4
Car/Jeep	0	1	0	1	3	2	1	1	1	1
Landline telephone	0	0	0	0	1	1	1	1	1	1
None of these	21	20	9	8	6	7	11	12	12	11

4.4. Documentation

Table 20: Possession of land and ownership (%)

Land ownership document	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Yes	98	96	84	79	88
No	2	3	16	11	8
Do not know	0	1	0	10	4

Documentation forms a critical component in adults having access to formal financial services. The study shows in Table 20 that most households have land ownership documents namely in the states of Bihar and MP being 98% and 96% respectively. This opens up options for households to obtain loans to finance their agricultural activities and commercialise these leading to improved productivity rates. Most financial institutions require Know-Your-Consumer popularly known as KYC, which refer to documents provided by the client to the financial service providers to identify their client and prevent fraud and money laundering. Such documentation involves identification documents such as an ID book or card or passport and proof of residence. Overall, the most popular document possessed in the PSIG states is the voter ID at 92% possession followed by the Aadhar card at 86% and both driver's licence and utility bill at 6% as shown in Table 21.

Table 21: Possession of documents (%)

Document possessed	Bihar		Madhya Pradesh		Odisha		Uttar Pradesh		PSIG	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Voter ID	90	91	90	92	90	91	96	94	95	93
Aadhar card	79	83	79	87	89	87	80	85	81	89
Drivers licence	3	11	4	3	8	4	2	10	3	9
Utility bill	4	18	6	6	8	7	2	2	2	4
Passport	0	0	0	0	0	0	0	0	0	0
None of these	4	2	4	2	3	2	2	3	2	2

The possession of documents is naturally skewed to rural areas having the largest population of adults in the PSIG states. Looking at the result displayed in Table 21, one does not see a lack of documentation encumbering the access or usage of financial services. Although the possession of proof of residence documents such as utility bills is low at state level being below 7%, the possession of land ownership documents shown in Table 20 shows a moderate to high ownership at state level. Hence, given the importance of conventional banks or financial institutions on personal documentation and collateral, the study reveals an adult population that has sufficient documentation to have access to formal financial services.

4.5. Access to infrastructure and connectivity

One of the limitations to financial services access in many areas is limited telephonic or cellphone usage or access. Table 22 presents usage of communication technologies amongst the PSIG states.

The states of UP and Bihar have the highest usage of cellphones, 93% and 92% respectively, while usage is low in Odisha (47%). This may be surprising since Odisha and MP have the highest ownership of mobile phones as shown in Table 19. All other technologies usable for communicating are low with less usage of computers/laptops in all states. The higher usage of phones and relatively higher usage of the computer or laptops in Uttar Pradesh can be attributed to better infrastructural development in the state[13]. This is supported also by the relatively higher number of households that are using LPG/PNG for cooking in UP suggesting better infrastructure in the state.

Table 22: Usage of communication channel/device

Communication channel/device	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Cellphone usage	92%	65%	47%	93%	82%
PCO/STD booth	0%	0%	0%	1%	1%
Computer/laptop	1%	1%	1%	4%	2%
Internet/Cyber café	1%	2%	1%	4%	3%
Email	1%	2%	1%	3%	2%

[13] Bhandari, P. (2012). 'Refining State Level Comparisons in India'. Planning Commission – Government of India.

Table 23 illustrates the mean time taken (in minutes) to reach common destinations regardless of the mode of transportation used. On average, the PSIG states' access to common destinations ranges between 10 and 30 minutes. In all states, adults generally have access to banking infrastructure such as bank branch and ATMs but differ significantly when looking at their location. The time taken to access the bank branch or ATM in rural areas seems more of a challenge in all states when compared to urban adults. Table 23 also shows that ATMs are further away for rural Bihar adult while banking correspondent outlets are further for rural MP adults. While the mean time taken to reach most of financial service points across the states does not show distance as a main barrier to financial access, improvements can be made to reduce the time taken to reach financial access points such as ATMs/BCs to simulate ease of access to areas such as grocery stores especially in rural areas.

Table 23: Mean time taken to destination (in minutes)

Destination	Bihar		Madhya Pradesh		Odisha		Uttar Pradesh		PSIG	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Grocery store	15	9	13	8	19	14	14	9	15	9
Market	30	18	32	19	29	16	32	16	31	17
Post office	26	19	28	22	26	17	28	18	27	19
Bank branch	34	20	34	23	33	18	34	18	34	20
ATM	41	19	33	19	35	18	35	17	36	18
Banking correspondent outlet	24	19	44	25	39	19	31	20	32	20
Money lender/ pawn shop	19	15	38	25	32	17	29	17	29	17

It is with the above socio-economic profile of the PSIG that policymakers have been focusing on financial inclusion of Indian rural and semi-rural areas, primarily for the two most important pressing needs:

1. Creating a platform for habitual savings culture – the lower income category has been living under the constant shadow of financial duress mainly due to the absence of savings. This report will explore the services accessible to the rural population in the savings chapter. Noteworthy, FinScope findings in other markets have shown that the poor often rely on informal mechanisms such as savings groups to cope with large payments or risk which usually are prone to risk of embezzlement or fraud within themselves but may offer ease of access and high efficiency.

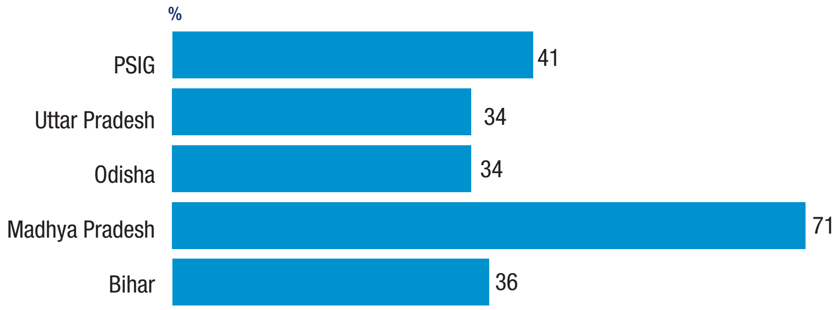
2. Creating formal credit avenues – to date the unbanked has largely been dependent on informal credit channels making them vulnerable. Availability of adequate and transparent credit from formal banking channels will allow the entrepreneurial spirit of the masses to increase agricultural outputs. Initiatives to this end have been the ease and continuity of credit to the poor by the micro-finance sector.

5. Financial behaviour, risk and coping mechanisms

5.1. Financial behaviour

The study revealed that a number of adults realised that they required more information on aspects of managing money. This information is useful to tailor information needs for adults living in different areas. Figure 20 shows that MP has the highest number of adults needing more information about managing money. This may be related to the higher proportion of adults living below the poverty line of the four states in the backdrop of a higher number of adults with no formal education.

Figure 20: Adults needing more information about managing money



Overall, looking at the gender split at the PSIG level more males (42% of all PSIG males) agreed to need more information than females (40% of all PSIG females), while at state level MP had higher proportion of males (74% of all MP males) with lesser females (67% of all MP females). At PSIG level, the age category agreeing to need more information about managing money was the 31-40 year category closely followed by the younger 18-25 year category.

Pertaining to decision-making on financial issues, households generally have one or more people involved in the process. The study revealed that many of the adults (70%) in the PSIG states are involved in the decision-making on financial issues either alone or jointly with a partner or other household member(s) with the remaining 30% not being involved in the process (see Table 24). Perhaps the most notable involvement of adults in decision-making at state level is that of Odisha with 87% of adults involved in financial decision-making as opposed to UP with only 63%. Involvement in decision-making concerning finances can help to indicate that adults are able to access financial services freely in their individual capacity or collectively. Looking at urban/rural areas no major differences are noted with individuals making decisions alone, but notable for those making decisions jointly.

Table 24: Involvement of adults in financial decisions (%)

People involved in decision-making	Bihar			Madhya Pradesh			Odisha			Uttar Pradesh			PSIG		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Adult makes decision alone	32	30	**31**	34	32	**34**	32	33	**32**	31	30	**31**	32	31	**32**
Adult with their spouse/partner	23	19	**23**	24	21	**23**	43	39	**42**	20	12	**19**	24	20	**24**
Adult and other household/family members	17	20	**17**	14	12	**14**	13	14	**13**	12	17	**13**	14	16	**14**
The household head – manages the money for everyone alone	26	29	**26**	28	35	**30**	13	14	**13**	36	35	**36**	29	32	**30**
Someone else in the household – not the household head	3	3	**3**	0	0	**0**	0	0	**0**	2	2	**2**	2	1	**2**

When adults were asked about the factors they would consider when opening an account or to use the services of a financial institution, not surprisingly, the most popular response was that of convenience at 51%. Other factors such as image or brand and ease of access were mentioned by 2 in every 5 adults indicating the triggers that appeal to adults when considering using a financial service provider (see Table 25). When analysing image or brand amongst the age groups, image and brand are more important for those of younger age (between 18 and 30 years). These factors may differ amongst gender groups. Notable differences in convenience and cost for adults in MP and Bihar, image or brand for UP adults and ease of access to funds and interest earning attribute for PSIG adults overall.

Table 25: Factors used for choosing financial institutions (%)

Factors considered when opening an account	Bihar		Madhya Pradesh		Odisha		Uttar Pradesh		PSIG	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Convenience (e.g. nearby, convenient timings, doorstep service)	53	51	46	41	43	45	56	56	52	51
Image or brand	31	29	34	30	34	34	25	21	29	26
Easy to access money when needed	27	28	47	41	40	37	47	40	41	37
Reasonable costs	27	20	33	27	29	27	50	49	39	36
Simple processes/documentation	26	23	20	19	36	35	22	21	24	23
Attitude of staff/helpfulness	20	20	15	12	16	15	27	26	22	21
Right product	18	18	23	24	19	18	14	12	17	16
Earns interest	8	12	3	10	1	1	2	4	4	7
Recommendation by others	3	3	2	2	16	14	2	2	4	4
Do not know	2	1	3	2	0	1	3	4	3	3

Adults were also asked what it means to save by choosing the statement that closest described the meaning of saving. Table 26 shows that most adults defined savings as keeping money safe (43%). This, in part, explains the use of banks as a way of keeping money safe (being the biggest driver for the banked). The idea that savings are kept so that they earn interest over time was only mentioned by one out of five adults. Looking at Table 27, about 54% of adults mentioned that money needs to be kept for at least a year to count as savings with 24% choosing a period of six months or less. When looking at gender, notable differences were captured for adults in MP defining savings as money to be safe and adults in Bihar defining savings as putting money away to increase its value.

Table 26: Perceived meaning of savings (%)

Statement	Bihar		Madhya Pradesh		Odisha		Uttar Pradesh		PSIG	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Money to be safe	20	21	59	53	55	57	47	46	43	43
Money to use later when needed	27	29	28	26	29	26	31	29	29	28
Putting money away so that the total amount increases over time	43	37	9	7	15	16	18	19	22	21
Do not know	11	13	4	14	1	1	4	6	6	8

Table 27: Shortest time for money to be kept to count as savings (%)

Time period	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
One day	4	1	4	1	2
One week	4	1	3	1	2
At least one month	14	4	12	6	8
Six months	14	9	3	15	12
One year	14	14	26	30	23
More than a year	18	32	46	33	31
Do not know	33	39	6	13	22

To better understand the lives of the adults in the PSIG states, certain statements concerning their financial lives were asked as presented in Table 28. It shows in the first two statements that adults were facing financial constraints with 71% agreeing that dealing with finances is stressful and 88% sometimes having to spend more money that they had available. About half of the adults agreed that budgets help to keep record of how much money they could spend and 28% keeping track of their income and expenditure on a monthly basis.

Table 28 Statements concerning financial livelihood (%)

Statement	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
You sometimes have to spend more money than you have available	91	88	94	86	88
Dealing with finances is stressful	83	77	59	66	71
A budget/record helps to keep track of how much money you can spend	68	47	42	47	51
You keep track of your income and expenditure on a monthly basis	47	22	27	20	28
You want to enjoy your money now rather than worry about the future	39	12	33	36	32
You understand the terms and conditions of different financial services that you have	44	17	46	42	38
You want to use technology to manage your money	7	11	18	10	11

5.2. Risk and coping mechanisms

Risk poses a significant amount of strain on a household especially if it is not covered. This has direct implications on the quality of one's life. The study explored the risks and hardships that people experienced in the past 12 months and the results are displayed in Table 29. Most adults faced a rise in the price of goods and services at 84% for the PSIG states with Odisha and MP at 98% and 93% of adults respectively. Further, adults in Odisha also experienced more hardship with family illness (80%) more than twice that of MP (35%). Few households experienced the loss of a family member or main income earner in the past year in all four states.

Table 29: Risk or hardship experienced in the past 12 months (%)

Experienced risk or hardship	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Rise in prices of goods and services (including transport, electricity, groceries, interest rates)	86	93	98	76	84
Illness within your household or family that requires medical expenses	44	35	80	60	54
Loss to agriculture, livestock or own business	12	17	26	18	18
Loss of job – self or household member	1	0	1	1	1
Loss/destruction of your home	4	1	2	4	3
Separation or divorce	1	0	0	0	0
Loss of savings	4	1	5	4	3
Death or disability of main income earner	0	0	1	1	1
Death of other family member not main income earner	0	0	1	1	1

As most households may face an increase in commodity prices due to inflation or illness in their households, it was important for the study to explore what mechanisms they used to alleviate these risks or hardships. The main mechanisms used to cope with such events for all PSIG states were to cut down expenses (73%), use savings (9%) and rely on family and friends (6%). When it came to illnesses within the household, savings came into play one out of five times. Although few adults reported to have experienced a loss of crop or livestock, the study reveals that an insignificant proportion of the PSIG states claimed from insurance, if at all. Due to the small base figures, analysis at state level could be misleading if computed due to smaller numbers of adults who answered.

Table 30: Coping with risk and hardship for PSIG (%)

Event-coping mechanisms	Cut down expenses	Used savings	Relied on money from family	Claimed insurance	Missed payment on a loan	Borrowed money from bank	Borrowed money from MFIs	Borrowed money from SHGs	Borrowed money from moneylender	Sold something to get money	Did nothing	Other
Rise in prices of goods and services (including transport, electricity, groceries, interest rates)	73	9	6	0	0	1	1	1	1	0	2	0
Illness within your household or family that requires medical expenses	28	20	7	0	0	1	1	0	4	0	0	0
Loss to agriculture, livestock or own business	8	6	3	0	1	1	0	0	1	0	1	0
Loss/destruction of your home	1	1	1	0	0	0	0	0	0	0	0	0
Loss of savings	2	1	0	0	0	0	0	0	0	0	0	0

5.3. Planning for old age

Savings also forms a large part of a safety net for retirement. When adults were asked what plans they had in place for their spending needs in the old age, 44% mentioned savings and 16% relying on money from family. 40% of adults did not know what they would do for their spending needs in old age.

Table 31: Plans for spending in old age

Statement	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Savings	40	36	58	46	44
Pension – National Pension Scheme (NPS)	3	3	7	5	4
Government grant/pension	1	5	3	7	5
Rely on money from family	2	12	11	27	16

When looking at the planning for spending by age, no major distinctions were found based on the proportions of their categories. Looking at it from a different lens (based on the group that plans to use a particular mechanism for old age expenses) the age group 31-40 years had more adults (26%) claiming that they would rely on savings with the 18-25 year category having 21% and 16% for the 26-30 years category. For the more senior adults aged 41 years and older 37% claimed saving to be the plan for the old age expenditure. Similarly, for pensions the under 40 year categories planned their old age expenditure on the National Pension Scheme with 67% while the categories aged 41 years and older having 33%. Only 1.1% of those above 60 years age had pensions, while 0.2% of those in the Antyodaya category had access to pensions.

6. Defining financial access and inclusion

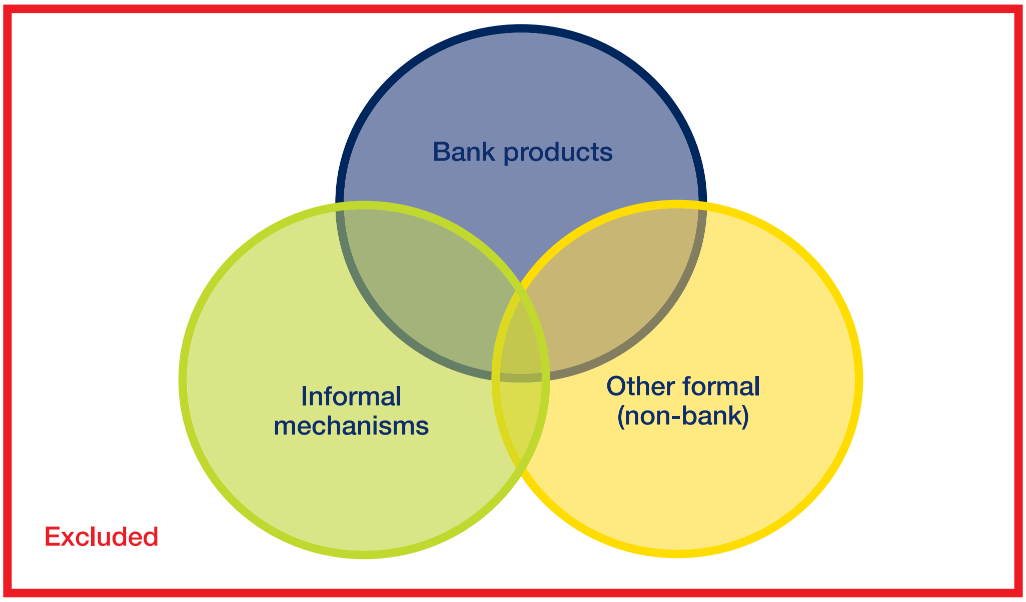
The financial access strand (explained schematically in Figure 21) is one of the key measures of FinScope surveys. It illustrates the use of financial products and services available within the market. Those who do not access these products and services are considered to be "financially excluded" due to the fact that they are physically, psychologically or circumstantially impeded from accessing such products and services or who have voluntarily opted to stop using financial services. The access strand ranges from formal banking services provided by commercial banks at the one extreme, shifting to other formal financial services provided by a large variety of other formal FSPs (not regulated by the reserve bank, RBI in this case). At the other end of the access strand one finds a range of informal services and products. This study focuses on four types of financial services: i) transactions such as deposits, withdrawals and money transfers (remittances); ii) savings/investment; iii) credit; and iv) insurance. Each of these services are provided in varying degrees by the banks or informal service providers, whereas formal financial service providers tend to offer specialised services, for example credit, insurance and pension schemes.

The standard FinScope methodology has four categories but for the PSIG a request was made to separate the banking segment into three sub-segments.

Figure 21: The Financial Access Strand

Consumers generally use a combination of financial products and services to meet their financial needs. It is empirical to understand the product combinations or overlaps as this will show the extent of financial needs not met by the formal sector thus signalling the role of the informal sector within the financial inclusion context. FinScope findings are presented to show these product combinations as illustrated in Figure 22 below:

Figure 22: Overlaps in uptake of financial products/services



In order to calculate the Financial Access Strands, these overlaps are eliminated.

6.1. The dimension of financial inclusion

Financial inclusion is only effective or functional if consumers have physical access to financial institutions, are eligible to open an account or use a product or service, and actually open an account or take up a product or service and then use it. In measuring financial inclusion, FinScope therefore enables the determination of:

- The proportion of the adult population that has physical access to formal financial institutions (i.e. financial institutions regulated by the Reserve Bank of India). Distance from the institution (measured by time taken to get to the institution) are used for this purpose
- The proportion of the adult population that is eligible to open an account or use a product or service with a formal financial institution – in this regard minimum KYC ("know-your-customer") requirements for product/service uptake enforced by the Reserve Bank are considered
- The proportion of the adult population that is financially included. Both formal and informal inclusion is measured
- The proportion of the adult population that is financially served and uses financial products/services

6.2. The determinants of financial inclusion

Although physical access to a financial institution and eligibility to open an account or use a product/service are prerequisites for the uptake of financial services, the actual uptake and usage of a financial service or product depends on the individual's willingness to use any financial service. A range of factors could influence this. FinScope attempts to highlight which factors influence uptake and usage by considering:

- Characteristics of the individual such as:
  - Demographics – age, gender, level of education
  - Income generating activities, levels of income and consistency/regularity of income
  - Attitudes and perceptions about money, financial services and institutions
  - Financial literacy, knowledge about financial products and services and an understanding by individuals of how financial products and services can help them improve their lives

- Characteristics of the household such as the structure of the household, role and status of the individual in the household
- The attributes of the community the individual lives in such as the level of access it provides to infrastructure as well as culture, tradition and religion

6.2.1. Gender

There is no doubt that gender plays a pivotal element in the household dynamics and the influence on choice of financial products that the household member has. How these dynamics play out in PSIG states will be explored through the gender lenses. The two sub-segments for gender are male and female with 52% and 48% representation respectively.

6.2.2. Age

Likewise, age is a variable that helps explains the levels of financial inclusion based on both the economic and intellectual maturity of an individual. As in most markets, the levels of unemployment mostly affect the youth. For the purposes of analysing financial access, the study uses two age categories for the PSIG adults i.e. 'under 30 years' and '30 years and older' as our experience has revealed that most youth under the age of 30 years are not economically settled. The split for the two age categories is 30% for under 30 years and 70% for 30 years and older. About 9% of adults were aged 61 years ad older as detailed in Table 11.

6.2.3. Level of education

In general, levels of financial inclusion, especially formal inclusion, are higher among adults with higher levels of education, that is, adults with higher than primary education. Given the correlation between education and income and possibly to some extent the relationship between education and financial knowledge, the study uses education as a determinant of financial access. The two categories are 'primary and less', and 'higher than primary' education. The primary and less category has 67% of the PSIG adults with the remaining 33% belonging to the higher than primary education.

6.2.4. Income source

Income is probably one of the strongest determinants of (formal) financial inclusion, referring to income levels as well as source/regularities of income i.e. proportion of the adult population that receive salaries/wages. Therefore, FinScope surveys take income sources and regularity into consideration when analysing financial inclusion. Our experience in implementing FinScope surveys show that those with more regular sources are more likely to be formally included than those with irregular (and often low) or no income (e.g. from farming activities and part-time jobs).

Adults source their incomes from multiple sources at a given time especially at the base of pyramid as they try to make ends meet. Through following the source of income, one can see how similar income groups have similar adult profiles (demographics) and hence similar financial perceptions and attitudes. Income sources, in most instances, predict the type and level of inclusion in a community. Generally, as income sources become more formal the financial products usually become more diversified compared to less formal income sources. The sub-categories for sources of income for adults are salaried, part-time employees, self-employed (non-agricultural), those receiving government grants or assistance, those receiving remittances and those involved in agriculture.

6.2.5. Area type

This refers to the geographical location characterised by population density, an array of human-built features, infrastructure and other physical features distinguishing between urban and rural areas as explained in Chapter four. For financial inclusion purposes, this is a significant determinant as the 'differences between rural and urban' characterise the proximity to financial services (supply-side), infrastructural development of area, which gives context to financial inclusion. The two sub-segments are rural (80%) and urban (20%) as discussed earlier.

The above-mentioned determinants will be analysed at PSIG level and at state-level.

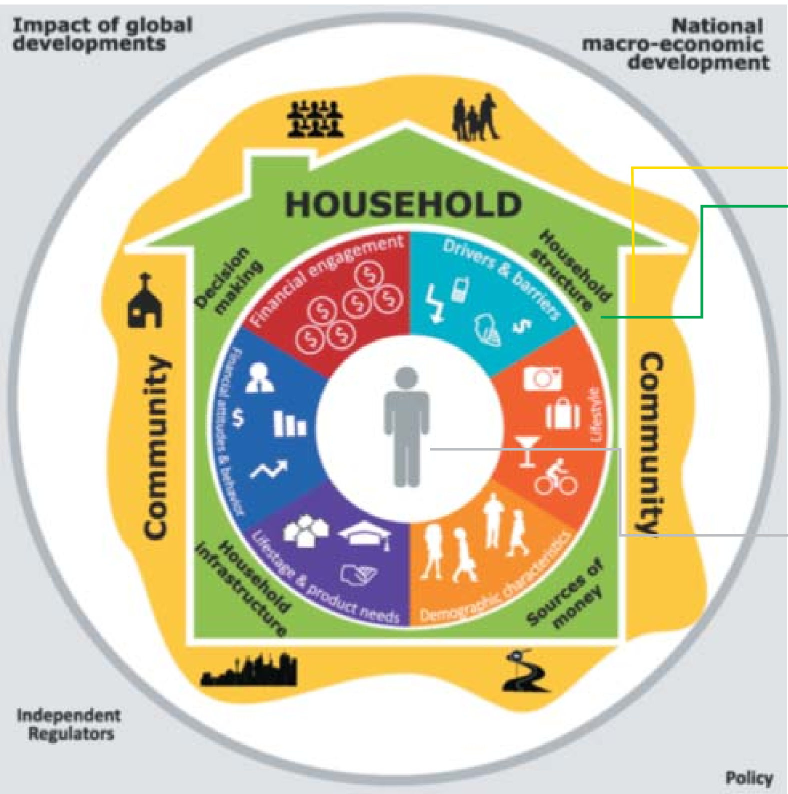
7. Financial inclusion in the 4 PSIG States

The goal of financial sector development and increased financial inclusion is to improve the lives of all 4 PSIG states adult population, and more especially to enable the poor to build financial security, manage financial shocks and to invest in opportunities to generate income through access to secure savings facilities and other financial services. In line with this goal, it would also be any Government's objective to channel as much of the money in a country through the formal financial system in order to enhance the liquidity of financial institutions and ultimately increase their ability to provide credit and better interest on savings.

Broadly viewed, the overall objective of financial sector development would therefore be to decrease the proportion of the population who are financially excluded and to specifically drive formal inclusion.

The study approaches financial inclusion using a livelihoods framework model. The approach used follows the understanding that adults are affected and influenced by the household, which in turn is influenced by the community at large. The livelihoods framework is illustrated in Figure 23. It shows that at the core of the framework, the adult is influenced by numerous factors starting from within the household such as household structure and infrastructure or household income sources. These influence the adult in the way they conduct their financial matters, lifestyle, etc. Impacting the household are community factors such as social groups, community infrastructure such as electricity and water or societal norms and practices.

Figure 23: Livelihoods framework



1 **Community**

- Facilities and infrastructure
- Social connectivity

2 **Household**

- Structure
- Decision-making & behaviour
- Sources of money
- Infrastructure
- Assets
- Vulnerability and response

3 **Individual**

- Lifestyle
- Life-stage and product needs
- Financial attitudes and behaviour
- Financial engagement
- Drivers and barriers
- Demographic characteristics

The following section looks at household level financial access and exclusion and then looks at adult (individuals) level access in the section to follow.

7.1. Financial inclusion and exclusion at household level

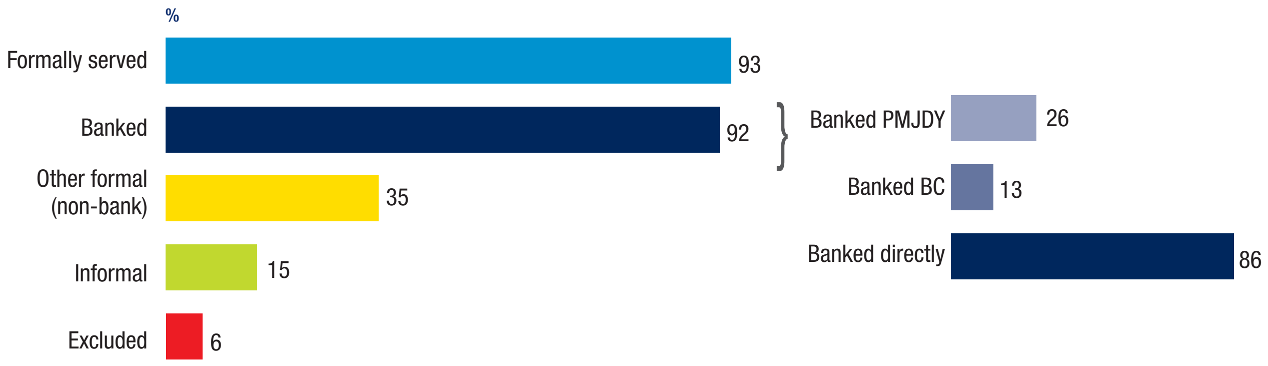
The social and economic setting of a community sets the tone and directly influences the propensities of whether households are financially served or not. As the livelihoods framework suggests, the availability (or lack thereof) of facilities and infrastructure creates an enabling environment for financial service providers to service that area – in turn enabling communities to have a greater access to financial services. The FinScope experience has noted the strong correlation between access to financial services and higher incidence of financial inclusion.

From the FinScope PSIG 2015, a proxy of how well-developed the community is, was derived on the accessibility to infrastructure and facilities. From section 4.5, the summary was that the PSIG states have good connectivity as 82% of adults use cellphones signaling that mobile connectivity is good. Furthermore, physical access to facilities shows that on average it takes an adult within PSIG states to reach a Post Office, bank branch and an ATM in 25 minutes, 31 minutes and 32 minutes respectively.

Bearing in mind that these are the poorest states of India, this shows that PSIG states are conducive to roll-out any targeted interventions as infrastructure and facilities are available.

Overall, the majority of the households (93%) in the PSIG are formally served as shown by Figure 24 below. The percentage of households that are banked directly is 86% while those that are banked through BC is 13% and 26% through PMJDY accounts. In general, 35% of households have other formal (non-bank) accounts for example saving with NBFC or MFIs and 15% are only served by the informal sector. This means that 6% (4 650 461 households) are financially excluded.

Figure 24: Household overall uptake of financial products/services (%)



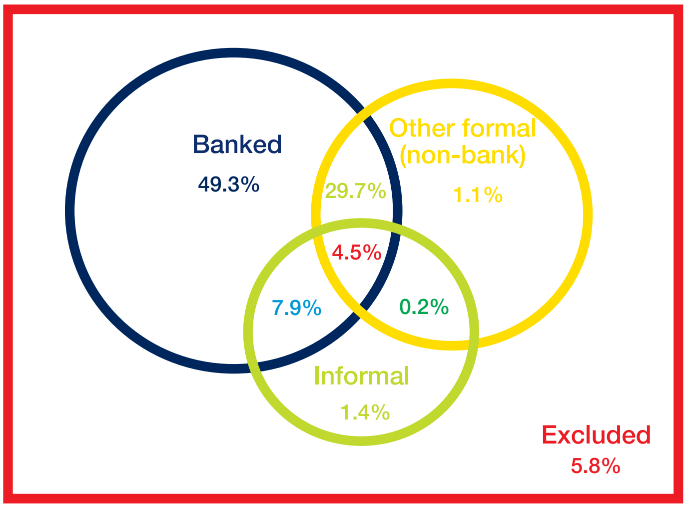
7.1.1. Overlaps of financial product usage by households

Households generally use a combination of financial products and services to meet their financial needs – a household could have a bank account and also belong to an informal grouping. A few groups are seen in Figure 25:

- Only 49% of households rely exclusively on banking services
- 13.2% use a combination of formal and informal mechanisms to manage their financial needs, thus indicating that their needs may not be fully met by the formal sector alone
- 2% of the household ONLY rely on informal mechanisms such as to save or borrow money

To get a clearer picture of how households utilise a combination of financial products, the product overlaps are shown below in Figure 25. This depicts that households that only have banked products is 49% while some households supplement the bank products with other products – that is 29% hold both bank and other formal (non-bank) products and 8% have bank and informal products. Overall, Figure 25 illustrates the extent of needs that drives households to have multiple products. This Venn diagram provides insights to financial service providers that there is a gap that is not fully met by product suites offered by them – thus requiring an innovative approach from them to design more appropriate offerings.

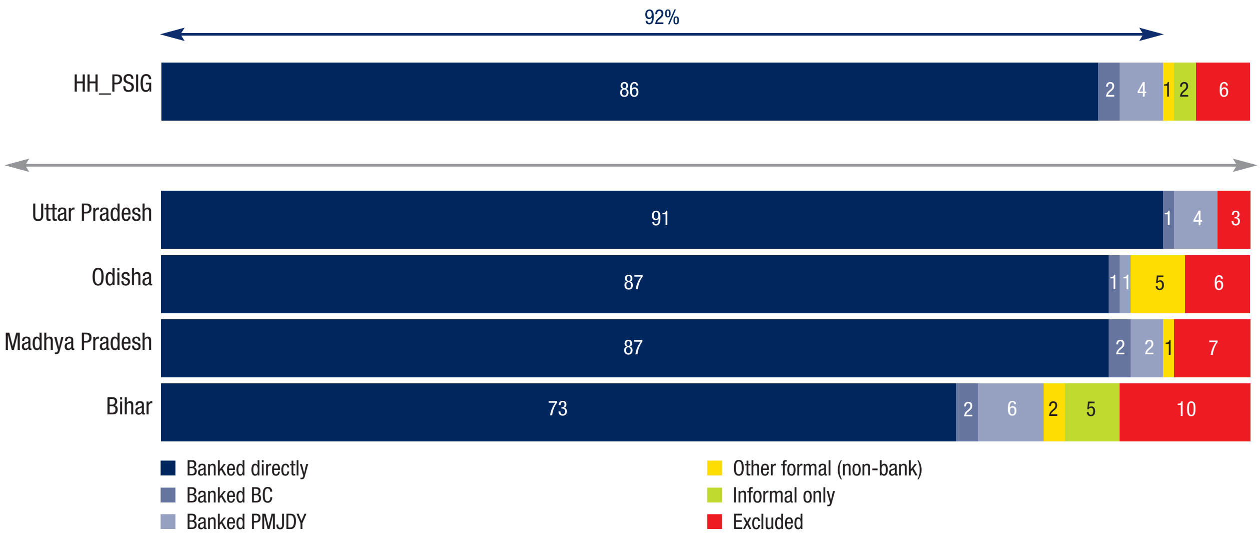
Figure 25: Household overlaps in uptake of financial products/services



In constructing this strand, the overlaps in financial product/services usage are removed, resulting in the following segments:

- Financially excluded households, i.e. they do not use any financial products/services – neither formal nor informal – to manage their financial lives (6%)
- Households who have/use informal mechanisms only but NO formal products/services (2%)
- Households who have/use formal non-bank products/services but NO commercial bank products (1%) – they might also have/use informal mechanisms
- Households who have/use bank products/services (93%) – they might also have/use other formal and/or informal mechanisms.

Figure 26: Household Financial Access Strand (%)



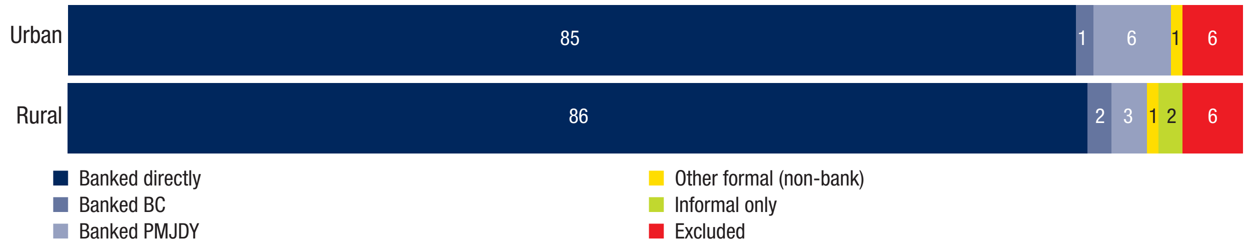
The banked household population represents 92% of the PSIG states indicating that most adults in the PSIG belong to a household where one or more members of the household are banked. In the section to follow we see how this how this influences the total adult population usage of bank accounts (i.e. household vs. individual adult). Few households are dependent on informal mechanisms only at 2% indicating a low dependency on informal services alone to deal with financial matters.

Households are formally included across states with Odisha leading, having 94% of households being served by formal financial institutions. The initiative by the Prime Minister to get households to have at least a financial account is gaining traction for extending financial inclusion as evidenced by the contribution of PMJDY accounts over and above the contemporary bank accounts that household members had. This is also evident in Figure 25 above illustrating the access strand for each state.

7.1.2. Household financial access by area type

When one looks at area type and household financial access in Figure 27, there is not much difference between area types and the levels of financial inclusion with urban at 94% of the households formally included while rural lags behind at 92%. One can also see a small number of rural households that are dependent on informal services only. However, there are minor differences in product uptake between the urban and rural area households.

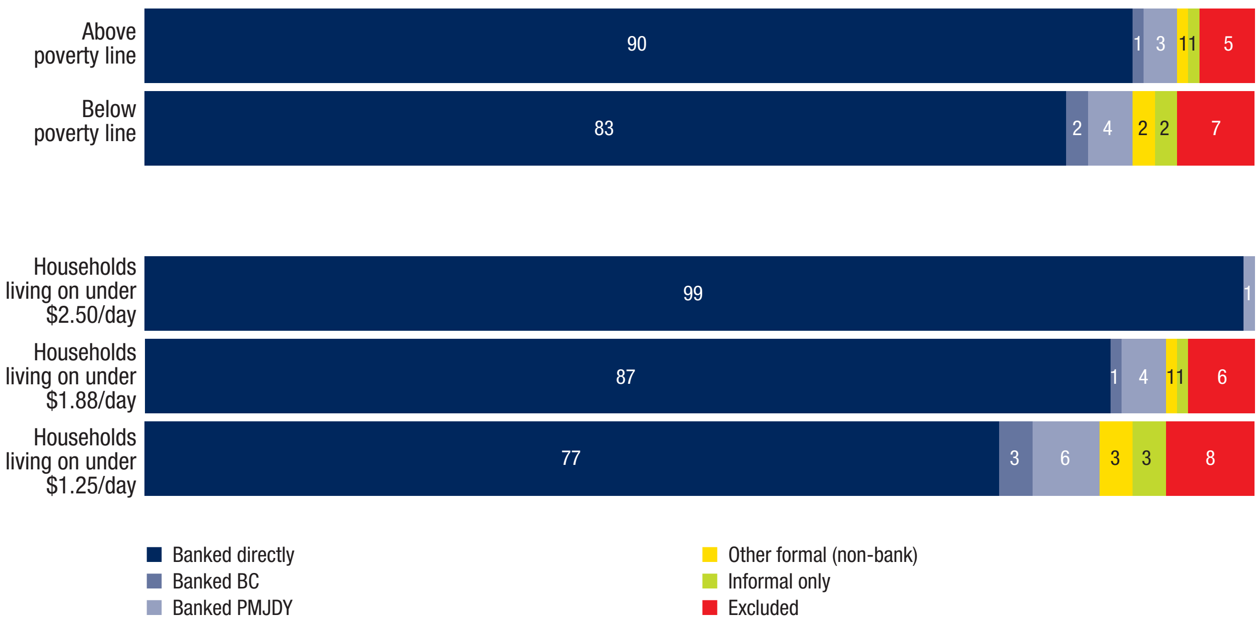
Figure 27: Household Financial Access Strand by area (%)



7.1.3. Household financial access by household economic status

Figure 28 shows the level of financial access by household economic status. The BPL households slightly lag behind those that are above the poverty line. It is surprising that there are no major differences in the total levels of financial access by the two groups. For those households that are above the poverty line, 90% of them are banked directly with 7 percentage points higher than the BPL households. It would also appear for "other formal (non-banked)" products to "informal only" that those households in BPL have slightly higher ownership of these products but with also a higher number of excluded households (7%). Generally, access to both BPL and APL households is high. Using the poverty indicator bands for household stratification in Figure 28, those living on under $2.50/day are well included (mostly banked) while those living on under $1.88/day and $1.25/day show lower banked households respectively. This also shows that as households get poorer, they tend to have higher dependency on informal mechanisms.

Figure 28: Household Financial Access Strand by Poverty Indicator Bands and Economic Status (%)



7.1.4. Household financial access by income source

As explained in Chapter 6, the study analyses the households by categorising them into common income groups. Looking at Figure 29, it shows that households receiving remittances are formally served, that is, they use formal channels to receive remittances and banking channels being used more (88%). As expected, where at least one member of the family receives a salary, 95% of the families are formally served. Noteworthy in this analysis is that even for the households that have part-time sources of income, 89% of them are formally served showing a drive for household inclusion that is wholly inclusive in design.

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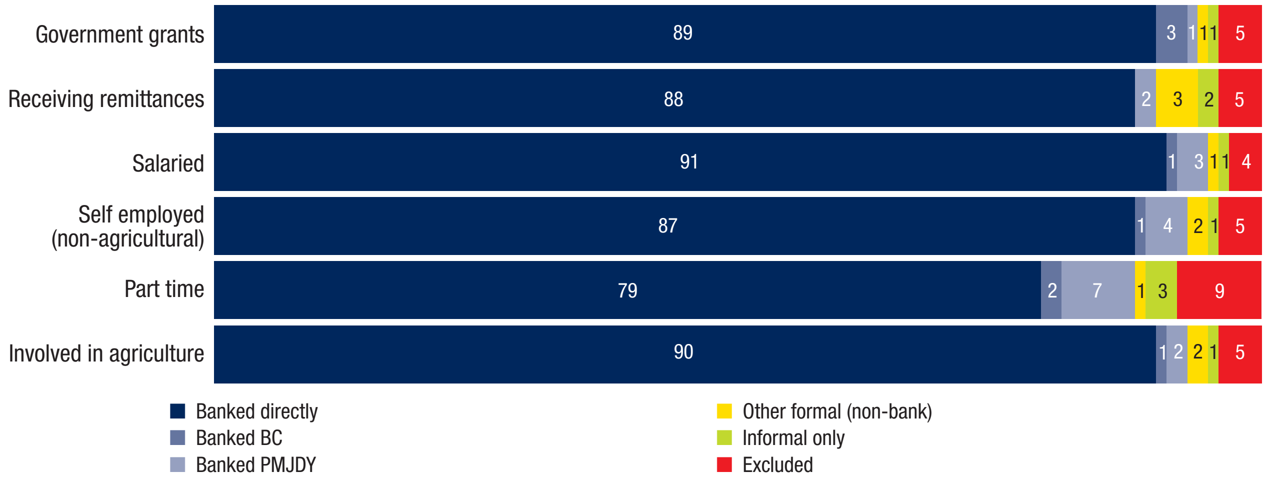
Figure 29: Household Financial Access Strand by income source (%)



Household results show that financial inclusion rates at household level are high with 93% of households formally served. The PMJDY is a scheme launched in August 2014 by the Prime Minister, where every Indian family will be enrolled in a bank for opening a zero balance account[14].

The scheme not only provides for the families of India to have an account but it also offers various benefits for the poor families. Some of these benefits are that every person:

- Will have a zero balance account
- Gain life cover insurance worth ₹30 000
- Will be given a new RuPay debit card – this card comes with accidental cover of 1 lakh rupees
- Will be eligible for taking an overdraft of ₹5 000 after 6 months
- Will qualify for pension grant at old age

These benefits cover almost all the product ranges for financial inclusion. As such, the relationship between households and individuals is close as families influence the choice of financial products that individuals take.

Having discussed the interaction between households and their financial livelihoods we now go a step further to try and understand how the household links to the individuals that it composes of. Household analysis helps give context to the environment in which adults live and work from – hence forming an integral part of understanding the financial lives of individuals. The next section and subsequent chapters explore the levels of financial inclusion from the individuals' (adult) perspective.

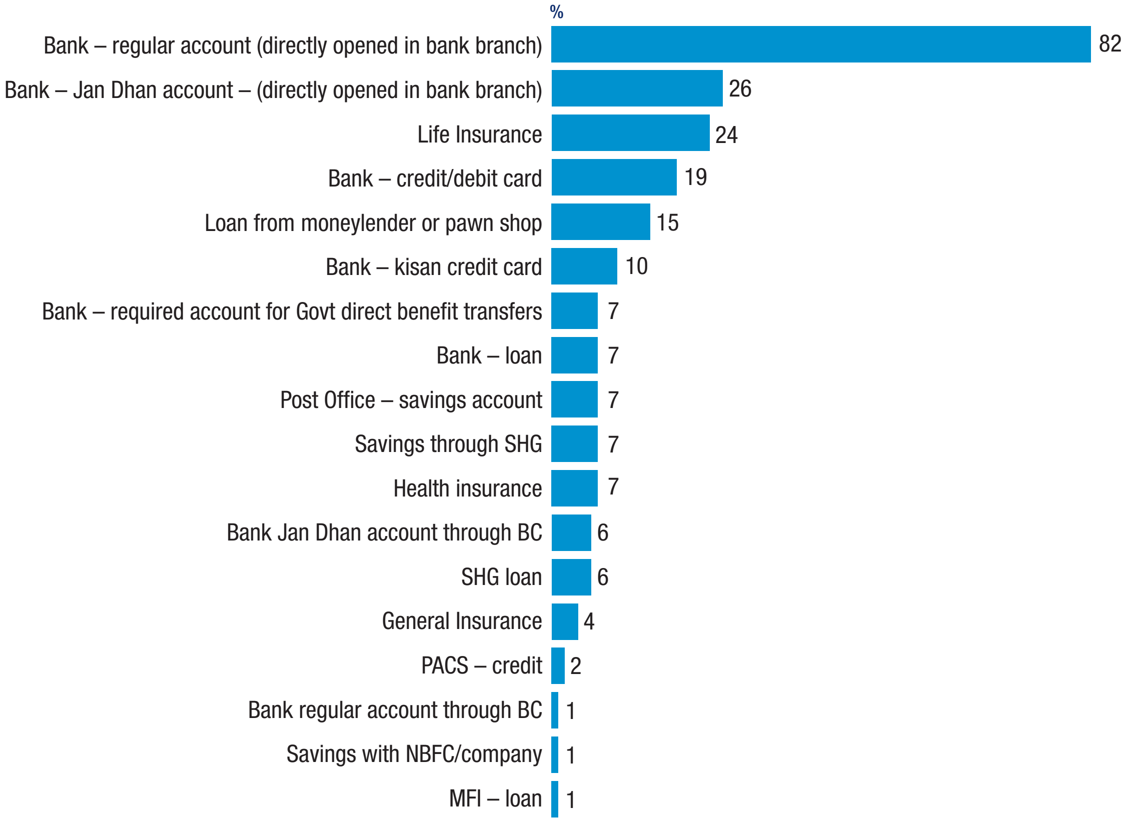
7.1.5. Household formal account distribution

Figure 30 presents the use of financial products by the households. It shows that bank products and services are the most popularly used in the PSIG states. This helps explain the household financial access strand showing a high percentage of household that are banked. 82% of households claimed to have a regular bank account while 24% claimed to have life insurance.

There were a total of about 76 985 464 households in the PSIG states. The FinScope methodology sought to find linkages between household financial access and their demographic characteristics. As most households are classified according to their economic status, whether they are in the rural or urban areas, these are the same variables that were used to classify if they are financially included or not.

[14] http://jandhanyojana.net/

Figure 30: Household usage of financial services



7.1.6. Household credit

Households use credit to manage their financial wellbeing and finance their operations. Figure 31 shows the percentage of households that used borrowed funds to finance their operations where a total of 23% use credit. Only 7% access credit through the banks and 3% through other formal (non-bank) sources. Though the emphasis is on formal channels, one notes that 13% are actively seeking credit from informal sources. The emphasis on informal is to highlight that households do use credit and the formal sector seems not to be the preferred source for those households.

Figure 31: Household credit overalls

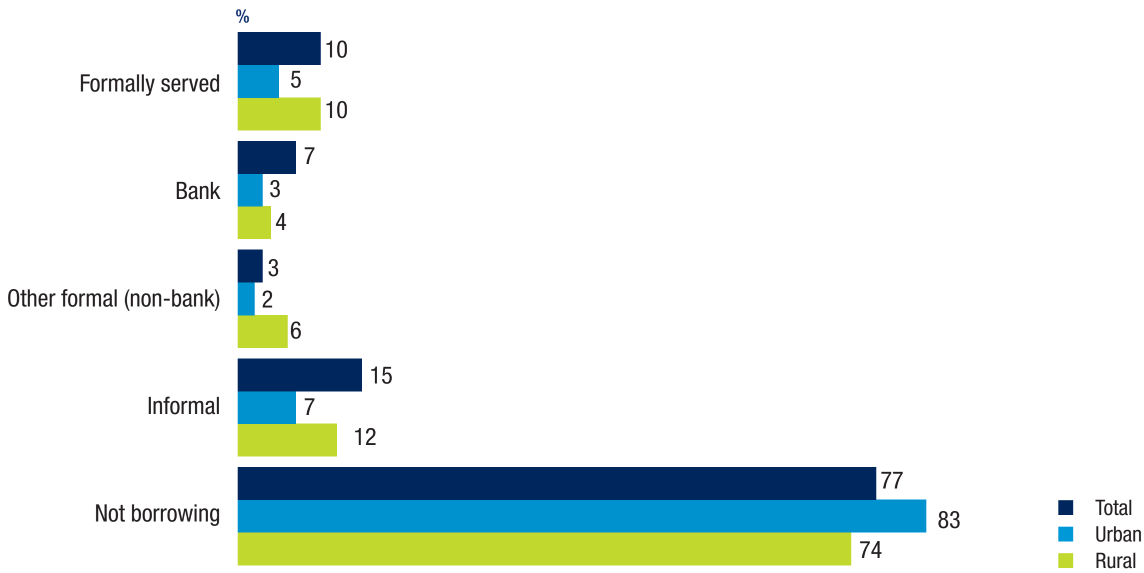
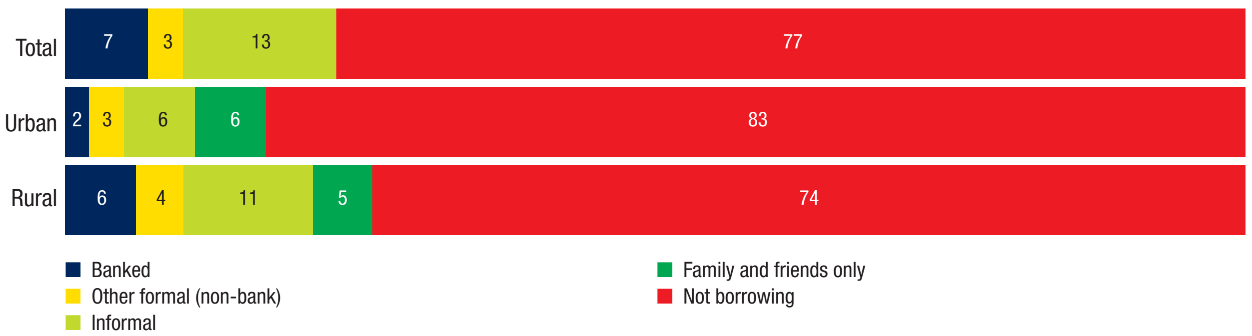


Figure 32 showing the credit strand indicates that:

- 7% claim to borrow from banks
- 3% have formal credit facilities from non-bank financial institutions
- 13% have informal credit
- 77% do not borrow

Figure 32: Household Credit Strand



7.1.7. Household insurance

Insurance is also used to cope with sudden shocks and events that may disturb the financial well-being of households. FinScope sought to assess the uptake of insurance products applicable at household level such as property and medical insurance. Figure 33 shows that 28% of all households are insured using formal products and 72% are not insured. The drivers for insurance identified in Figure 34 show that life insurance (85%), health insurance (24%) and general insurance (15%) are the top drivers for insurance product uptake.

Figure 33: Household Insurance Strand

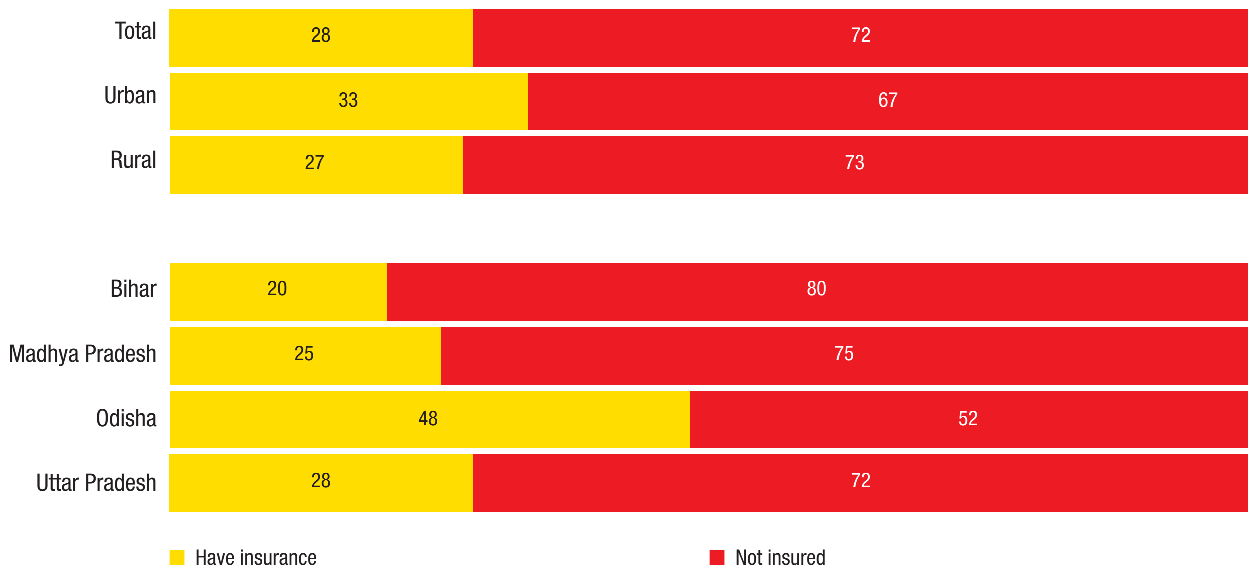
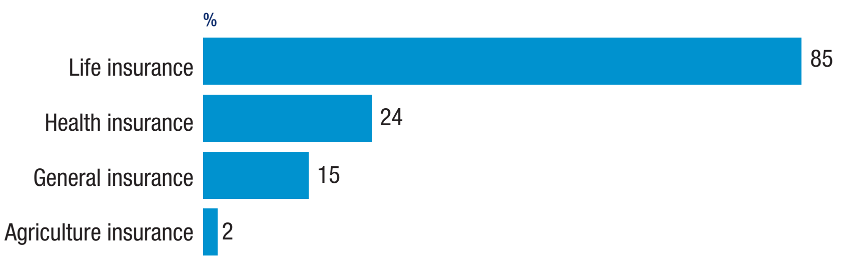


Figure 34: Drivers for household insurance



7.1.8. Household remittances

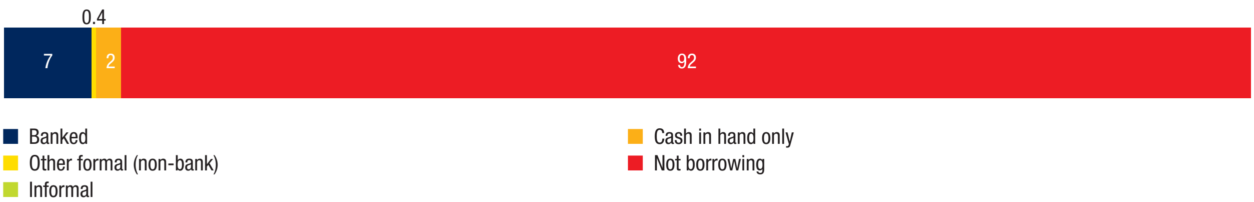
The flows of funds are an important element in sustaining households financially – especially those flowing inbound. Household members may be scattered across India but remit funds to other household members left behind as a means of supporting them. Remittances are another product that is taken into account when assessing inclusion. Figure 35 shows that 7% of households are remitting through banking channels to receive money. However, caution must be exercised, as the questions were directed only at the respondents on whether they or the household received money.

Figure 35: Household remittances overalls

Figure 36 summarises the levels of remittances as:

- 7% of the households remit through banks
- 0.4% of households use formal remittances facilities from non-bank financial institutions
- 2% use informal channels
- 92% do not remit

Figure 36: Household Remittances Strand



Household remittances form an important livelihood component of income source. The study found that 10%[15] of households in the PSIG states receive their money from within India and only 1% from outside the country. Bihar state shows the highest proportion of households receiving money in the past 12 months with 21% shown in Table 32 below.

Table 32: Households claiming to receive money in the past 12 months (%)[16]

	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Received money within India	21	1	4	10	10
Received money outside India	1	0	0	1	1

15 The claimed remittances results do not simulate the product-based remittances found in the remittances strand. The claimed figure is often exaggerated

16 Although comparability between surveys needs identical or similar methodologies, AIDIS 2014 reported that Odhisha and MP household remittances were much higher.

7.2. Individual financial access and exclusion

The previous section gave context to how households access and use financial products in different areas and economic situations. This section now looks closer at the adult individual as most financial products are tailored to be used by individuals. More so, although financial products can benefit members of a household, individuals who in their personal capacity own most products and services, face different choices and have different needs. Financial products are also designed mainly from individual based traits rather than communal traits that may not speak to individuals.

In order to assess the extent to which adults within the PSIG states have access to formal financial institutions, the study looks at the geographical distribution of PSIG adults in relation to the geographical distribution of formal financial institutions.

Data collected through FinScope 2015 survey in PSIG regarding the physical locations of access points of formal financial institutions, enabled the estimation of time taken to get to geographical mapping of the location of access points in relation to the geographical distribution of adults (See Chapter 4). This led to the conclusion that physical access or proximity to financial institutions did not serve as a major obstacle to formal financial inclusion in the PSIG states.

Product information collected from financial institutions suggested that the main requirement for opening a basic entry-level type of account included proof of identity and the provision of two passport photographs. For most financial institutions strict deposit and minimum balance requirements do not apply for these types of products.

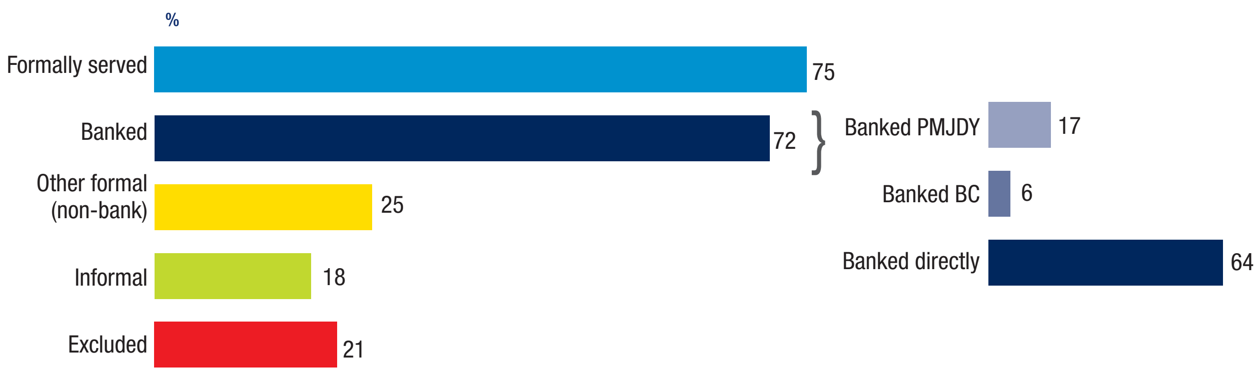
As carrying of a national identity card is obligatory for every resident in PSIG aged 18 years or older, eligibility, like physical access, did not seem to serve as a major obstacle to formal financial inclusion. On average only 8% adults in the PSIG states claimed to have no Voters ID.

7.2.1. Individual levels of financial inclusion

The term formally served refers to the percentage of adults that have financial products at formal financial institutions across all product categories. When interpreting Figure 37 one notes that 75% of the adults have some type of financial account with formal providers – and obviously this interaction is evident with commercial banks as they account for 72%. Further, this means that 17% are banked through PMJDY accounts[17] while only 6% are banked through banking correspondents (BC). Similarly, 25% transact with other formal (non-bank) institutions.

The Indian Finance Minister had aspirations that each individual in every Indian household should have a financial account by August 2015[18]. Noting the 75% of the adult population in the PSIG states who are formally served, this is quite an achievement. If one includes the informal sector in the equation, this figure would significantly be higher as some adults still transact in the informal space. Possibly, those who transact in the informal space (18%) can be incentivised to participate in the mainstream formal economy though financial education initiatives that motivates for the use of formal products.

Figure 37: Financial Access overalls (%)



When analysing further, the individual overlaps in Figure 38 highlights the product combinations that adults use in meeting their financial needs. Those that have banked or formal products only (42% and 3% respectively) are content being served by those products exclusively, while 32% need a supplement from other products. Other formal (non-bank) is driven by insurance products and is skewed towards adults living in Odisha. Informal products are being driven by savings in Odisha and credit in Bihar.

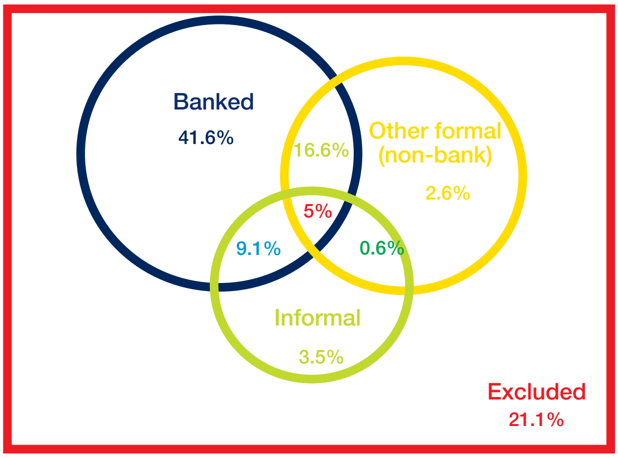
[17] These accounts may be serviced by bank branches directly or through business correspondents.
[18] http://www.cgap.org/blog/can-india-achieve-financial-inclusion-within-next-few-years

7.2.2. Overlaps of financial product usage by adult individuals

Individuals generally use a combination of financial products and services to meet their financial needs – an individual could have a bank account and also belong to an informal grouping.

- Only 42% of adults rely exclusively on banking services
- 15% use a combination of formal and informal mechanisms to manage their financial needs, thus indicating that their needs may not be fully met by the formal sector alone
- 4% of the adult population ONLY rely on informal mechanisms such as Self Help Groups to save or borrow money

Figure 38: Individual overlaps in uptake of financial products/services

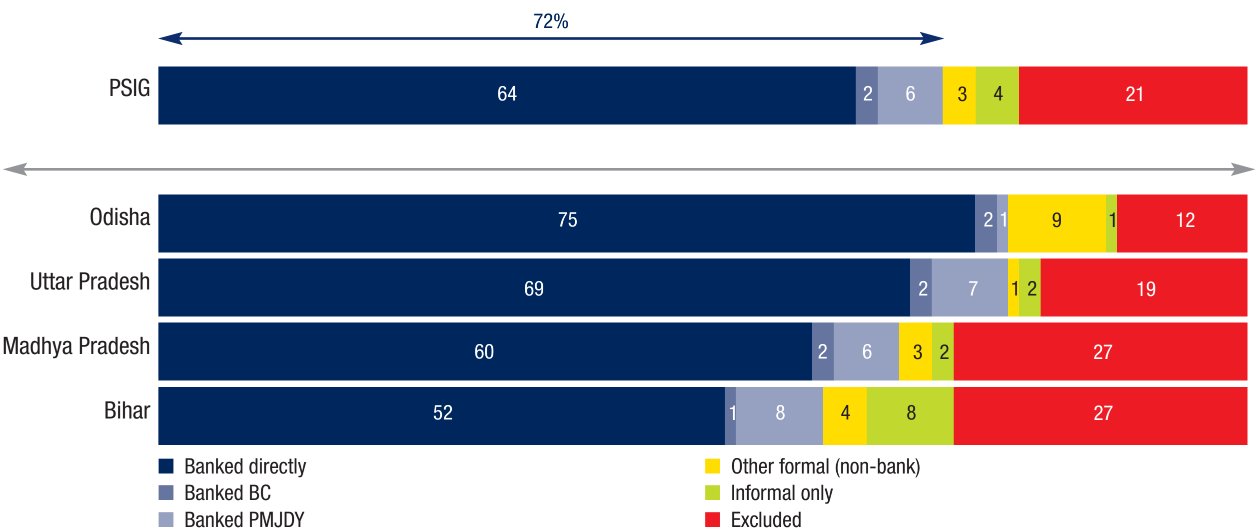


In constructing this strand, the overlaps in financial product/services usage are removed, resulting in the following segments:

- Financially excluded individuals, i.e. they do not use any financial products/services – neither formal nor informal – to manage their financial lives (21%)
- Individuals who have/use informal mechanisms only but NO formal products/services (4%)
- Individuals who have/use formal non-bank products/services but NO commercial bank products (3%) – they might also have/use informal mechanisms
- Individuals who have/use bank products/services (72%) – they might also have/use other formal and/or informal mechanisms.

Below is a summary of the Consumer Financial Access Strand of the four PSIG states in Figure 39 which shows that 79% (210.4 million) of the adult population was financially included (75% formally served, leaving 21% (56.2 million) financially excluded at the PSIG level). The financial access strand is an amalgamation of all the landscape product such as credit or savings which will later be looked at individually e.g. Savings strand.

Figure 39: Consumer Financial Access Strand (%)



When comparing the Financial Access Strands for the four states, Odisha is leading because it has the highest banked population at 78% and also has the least number of the excluded population (12%). This means that majority of the adults are financially included at 88% for Odisha when summing up all forms of product categories held. Bihar lags behind with the highest proportion of the financially excluded with 27%. UP's banked population is similar to Odhisha (78%) but it has a higher excluded proportion of 19%.

The next section looks at the determinants of financial inclusion.

7.3. Determinants of financial inclusion

There are a number of factors that determine the level of financial inclusion. The livelihoods framework is one way of contextualising financial inclusion. The determinants of financial inclusion capture basic demographic and socio-economic information of individuals, households, and communities. It looks at who they are (age, gender, geographical distribution), what they have (education, infrastructure), and what they do with what they have (income generating activities, role of money, coping strategies). All these factors influence the financial lives of people and varying degrees and hence affect financial inclusion.

7.3.1. Financial inclusion and access by area type

The presence of Regional Rural Banks has been evident as the banked population is similar for both area types, albeit urban reports 73% while rural reports 72% in Figure 40. It can be noted that overall financial inclusion is pegged at 77% for urban while it is 79% for rural areas.

Figure 40: Financial Access Strand by area (%)

India is predominantly composed of public sector commercial banks, which account for 70%[19] of total bank credit with large numbers of rural and semi-urban branches. The Self Help Groups (SHG) have the largest geographic outreach in terms of numbers and are serviced largely by the public sector banking system.

[19] Source: EDA Rural Systems Ltd (2015), page iii

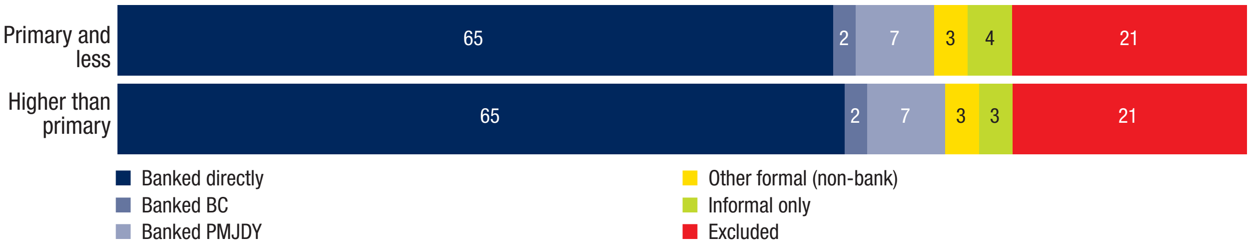
7.3.2. Financial inclusion and access by gender, age and education

There is no clear evidence to say that age or level of education influences the choice of financial products, but gender does. Figure 41 and 42 show no significant differences for age or level of education as the profile of the users have similar types of products. On the other hand, males have a higher percentage of those that have contemporary bank accounts (banked directly) with 70% while for females its 58%. Overall, the picture does not produce conflicting results across the determinants of financial inclusion with the exception of gender.

Figure 41: Financial Access Strand by gender (%)

Figure 42: Financial Access Strand by age (%)

Figure 43: Financial Access Strand by education (%)



The PSIG states have an interesting twist to the FinScope norms. As mentioned in section 6.3, the determinants of financial inclusion are used to create a practical way of understanding the realities of the people and their surrounding areas- using demographic variables such as age, gender, level of education, source of income and type of area they live in. In most countries, the FinScope experience has shown the following norms:

- those with higher than primary level of education are more likely to be formally included
- males are likely to be formally included
- those with regular sources of income are more likely to be formally included
- those living in urbanised [physical accessibility to formal financial institutions, sanitation, electricity, etc.] are more likely to be formally included

In the PSIG states, there are real reasons and justification for why these norms do not apply. Firstly, the Indian Finance Ministry has an initiative to ensure that every individual has a formal financial account in order to advance financial inclusion. Secondly, the presence of financial institutions in rural areas is a clear indication of progressive states as regional rural banks have good geographic coverage. Moreover, the summary below encapsulates why the PSIG states fare well with respect to financial inclusion.

- Physical access to financial institutions – the average time taken to a formal financial access point is 30 minutes, which is relatively good considering that these are the poorest states.

- Eligibility to open an account – FinScope results shows that 98% of adults have identity documentation in their names to facilitate the opening of financial accounts. This also suggests that documentation is not a barrier to financial inclusion – it further means the minimum "Know Your Customer (KYC)" requirements are easily met.
- Product take-up – formal product take-up of 75% is a great result considering the poor rank of the PSIG states. When comparing this inclusion rate to other South East Asian countries, these poor states have better financial inclusion rates.
- Usage – Banking account usage is dealt with in section 8.

7.4. Landscape of Access

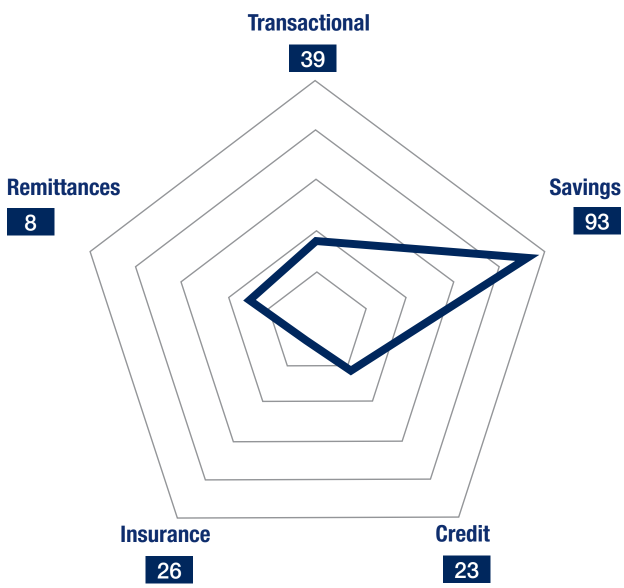
The FinScope Landscape of Access is used to gain more insight into the type of financial products held or used. Landscape of Access looks at the types of products taken up by consumers who are financially included (210.5 million) and describes the percentage of adults that have/use formal and informal products/mechanisms, including the following:

- Transactional products/services - current accounts, debit cards, credit cards or basic savings accounts, which could be used for transactional purposes, etc.
- Savings products/services - Long and short-term products are included – i.e. basic savings accounts, fixed deposit accounts, shares, government and/or utility bonds, savings with savings groups, etc.
- Credit products/services - Loans from formal financial institutions and informal credit such as shop credit and credit from moneylenders; shops or savings groups, etc. are included.
- Insurance products/services - Risk management products from formal institutions
- Remittance services/mechanisms - remittance services provided by formal institutions such as Western Union or informal mechanisms such as paying taxi or bus drivers a fee to transport remittances, etc. are included.

The study findings summarised by Figure 44 revealed that:

- PSIG adults were most likely to have savings (93%)
- Transactional products/services have been reported by 39%
- Remittances (26%)
- Credit product (23%)

Figure 44: PSIG Landscape of Access



8. Commercial bank product uptake and usage

This chapter looks at the issues around banking. Before we assess the financial inclusion levels with regards to banks, it is important to understand the psychology of the consumers when dealing with financial institutions. With regards to levels of trust, there is a clear disparity between public banks and private banks where there was total trust on government banks versus private banks, (see Figures 45 and 46). Similarly, this trend continues on the perceived ease of dealing with private banks (31%) and business correspondents of banks/BC kiosks (21%). Further understanding of this trend is needed as financial inclusion is pegged on finding ways for the public to deal with financial institutions generally.

Figure 45: PSIG level of trust with banks

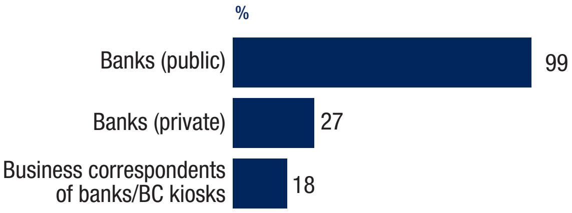
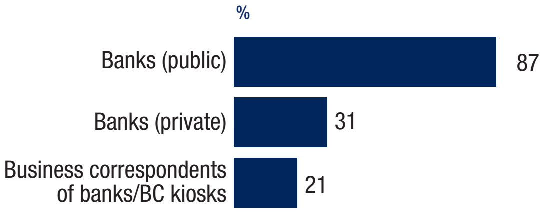
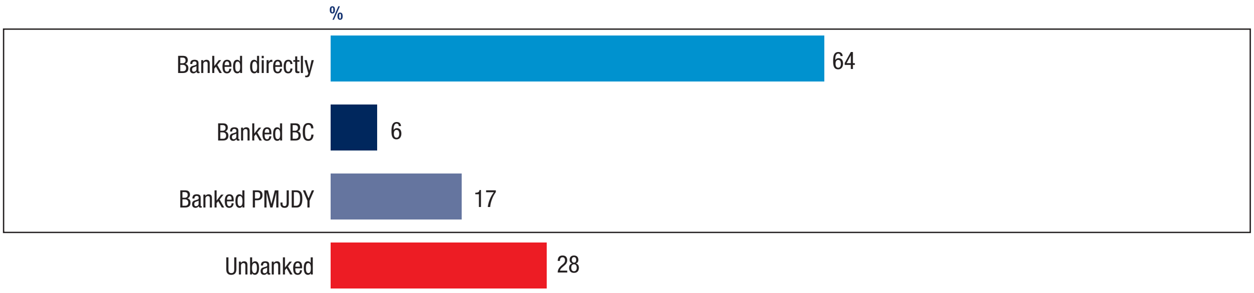


Figure 46: Ease of dealing with financial institutions



As already shown in the previous analysis in the Financial Access Strand, banking status is composed of the three sub-segments. Firstly, contemporary bank accounts as those individuals who have bank accounts organically – termed directly banked. The second sub-segment consists of the individuals who opened bank accounts through the banking correspondents (BC) – i.e. the use of other bank representative channels as means of reaching the consumers. Lastly, the third sub-segment consists of the groups that have actively taken up the PMJDY accounts where the initiative is to get the adults to have banking accounts. Figure 47 shows that 64% of the adult population have the contemporary basic account while 6% have banking correspondent accounts. Further, those who have taken up the PMJDY accounts are at 17%. It should be noted that there are still some individuals who have a combination of these accounts. Using a different age category to check the level of access amongst different age groups as used in Chapter 4, the proportion of those in age group 26 to 40 years with bank accounts is significantly less than other age groups. Ownership of credit/debit cards is less prevalent in age group 51 years and above compared to those below 50 years showing that ownership of bankcards among adults tended to increase with their level of education.

Figure 47: Banking products uptake

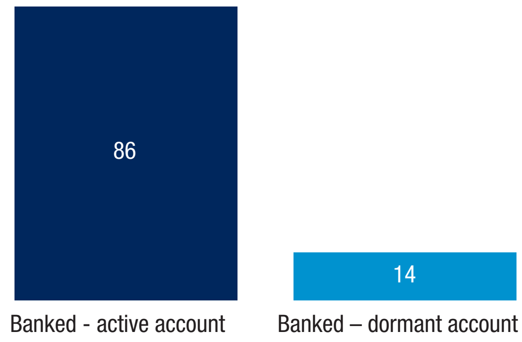


The survey shows that the India PSIG states' bank account penetration might be higher than expected; however these states suffer from notable inactive accounts. About one in ten (25.5 million) adults in the PSIG states have inactive bank accounts (Figure 48). A bank account is classified as 'active or inactive'. If one has a current or a savings bank account which has not been used for any transactions for more than 12 months it is classified as inactive. If one does not do any transactions from a bank account for 24 months, then it will be classified as dormant.

Only 66% (129 million) adults actively use their bank accounts on a monthly basis to either initiate transactions such as withdrawal of cash at a branch or automated teller machine (ATM), payment by cheque, transfer of funds through Internet banking, phone banking or ATMs. The use of accounts for payments or receiving payments/income is relatively low – 27% (54.7 million) adults reported using accounts to make or receive payments in the past 12 months. Only 11% (20.6 million) adults receive their income through a bank account.

Put differently active accounts are those that have been used for at least one transaction in the past three months and at least ten times during the past year.

Figure 48: Banking usage status in the PSIG states (of the banked population, %)

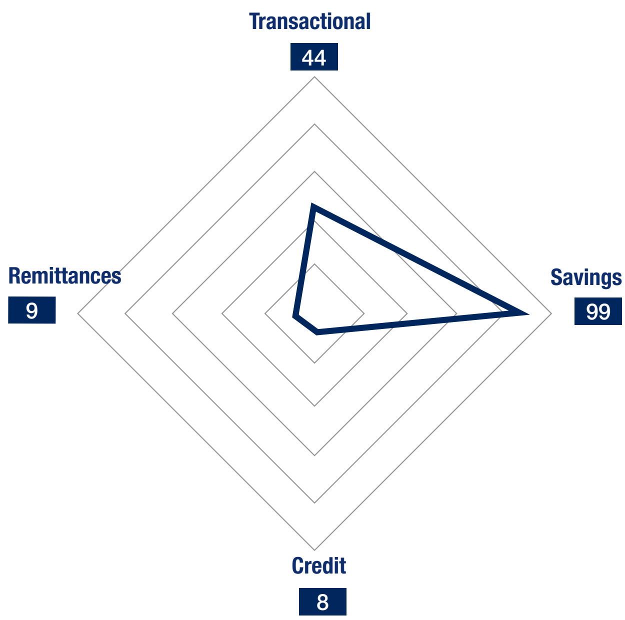


The landscape of access for the banked population (Figure 49) provides an overview of the types of bank products held/used by the banked population indicating that:

- Bank clients were most likely to have savings (99%)
- 44% (85.3 million) have transactional facilities with their banks
- Only 8% (14.9 million) of bank clients have credit products from their bank

If it is taken into account that payments in these states are mostly cash-based (food, clothes, bills, services and even larger household appliances are paid for in cash by more than 90% of adults), these findings indicate that bank clients were mainly served in terms of their savings needs.

Figure 49: Landscape of bank product access in the PSIG states



There are a number of reasons why people use banks. Table 33 below summaries the drivers for the use of bank accounts. The main driver is that people use bank accounts to keep their money safe from theft at least nine out of ten times for each of the states. Additionally, the banked is also driven by those that use their accounts to remit money with 90% of the banked adults in Bihar stating this as an advantage.

Table 33: Drivers for banking (%)

Advantages of using a bank or Post office	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Money is safe from theft	99	98	91	97	97
Easy way of receiving/sending money from others	90	70	66	76	77
You get interest on savings	86	60	71	74	73
Safe way of receiving/sending money from others	82	61	59	69	70
Helps you to get access to loans	61	44	64	49	53
Compulsory for receiving government payments/benefits	56	44	42	53	51
Salaries/wages can be deposited by employers	61	28	43	29	37
Other	1	1	6	3	3

All adults were asked about the advantages of the PMJDY which are presented in Table 34. The PMJDY account has advantages over the traditional bank accounts such as relaxed and simple KYC. 72% of adults in the PSIG states claim it to be the main advantage of the PMJDY.

Table 34: Drivers for PMJDY (%)

Advantages of using PMJDY	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Regular Bank accounts require a lot of documentation to open account	61	72	54	83	72
Regular Bank accounts require a deposit/ minimum balance to open the account	49	64	35	49	50
Information about the details of the accounts (requirement, benefits, etc.) are clearly spelt out for PMJDY accounts.	43	21	45	44	40
PMJDY accounts could also be opened through a Banking Correspondent (not necessarily only at the Bank Branch)	32	38	39	26	31
When receiving a payment from government or salary or wage into a bank account, it is better to take all the money out at once rather than take it out as you need it	20	14	28	7	14

Few adults claimed to use someone else's account with only a proportion of 0.5% at the PSIG state level. Of these adults, 95% claimed to use a 'bank direct account'. When asked whose account they were using, 45% claimed the account to belong to a neighbour or friend, 25% claiming it belonged to their spouse or partner and 7% claiming to belong to their parents. The main reasons for the adults using someone else's account were that they were illiterate (20%); distance to a bank too far (15%) or they did not have any documentation (13%).

The survey indicated that 72% (192.2 million) of the adult population is banked (i.e. had/used commercial bank products/services). Table 35 gives an overview of the characteristics of the banked population and that the profile of the banked was significantly skewed towards:

- Adults from Uttar Pradesh
- Male
- Post-secondary

Merely having a bank account is not enough for effective financial inclusion. What is of paramount importance is the usage of that bank account. Characteristics of the banked population with "active" bank accounts were significantly skewed towards:

- Urban
- Odisha state
- Males
- Secondary and Post-secondary

Rural adults, females and Bihar state were least likely to have active banking accounts.

Table 35: Distribution of the banked population

Geographic distribution	Total population %	Banked population %	Active bank accounts at monthly basis %
Rural	80	80	77
Urban	20	20	23
States			
Bihar	24	20	21
Madhya Pradesh	18	17	17
Odisha	12	13	16
Uttar Pradesh	46	50	46
Gender			
Male	52	55	57
Female	48	45	43
Age distribution			
18 to 29 years	30	30	29
30 to 39 years	26	26	26
40 to 49 years	19	19	19
50 to 59 years	12	12	12
Older than 60 years	13	13	13
Income generating activities			
Money from agriculture	55	56	56
Part time job	46	45	44
Own business (not agriculture related)	18	19	20
Salary	15	15	15
Remittances	10	10	9
Government grants	9	9	9
Levels of education			
No formal school	31	28	23
Primary school	36	36	36
Secondary school	25	26	29
Post-secondary	8	10	12

There are about 73.9 million unbanked adults in the PSIG states. Bihar state is more likely to have a higher proportion of the unbanked population compared to other states. The unbanked population skewed towards adults without formal education, and females.

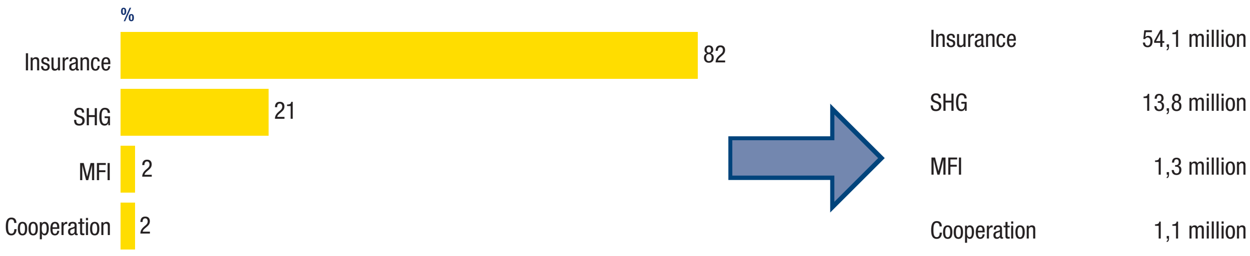
Table 36: Distribution of the unbanked population

Geographic distribution	Total population %	Unbanked population %
Rural	80	80
Urban	20	20
States		
Bihar	24	33
Madhya Pradesh	18	21
Odisha	12	9
Uttar Pradesh	46	37
Gender		
Male	52	44
Female	48	56
Age distribution		
18 to 29 years	30	30
30 to 39 years	26	27
40 to 49 years	19	18
50 to 59 years	12	12
Older than 60 years	13	13
Income generating activities		
Money from agriculture	55	54
Part time job	46	48
Own business (not agriculture related)	18	17
Salary	15	14
Remittances	10	10
Government grants	9	8
Levels of education		
No formal school	31	39
Primary school	36	35
Secondary school	25	22
Post-secondary	8	4

9. Other formal (non-bank) uptake and usage

As was indicated earlier (see Figure 37), 25% of the adult population had or used products provided by non-bank formal institutions. Figure 50 indicates that most (82%) adults using non-bank formal financial products or services had or used products/services from the insurance sector.

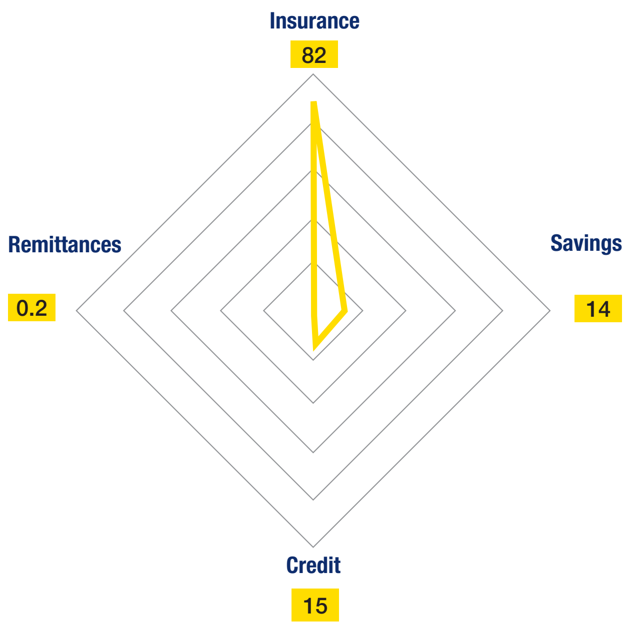
Figure 50: Products/services used by adults served by non-bank formal financial institutions



The results summarised in the landscape of access for adults served by non-bank formal institutions (Figure 51) give an overview of the types of products held/used by these adults:

- 82% had/used insurance products
- 14% of adults that had/used non-bank formal products had/used savings products; 15% borrowed money from institutions such as MFIs and SHG

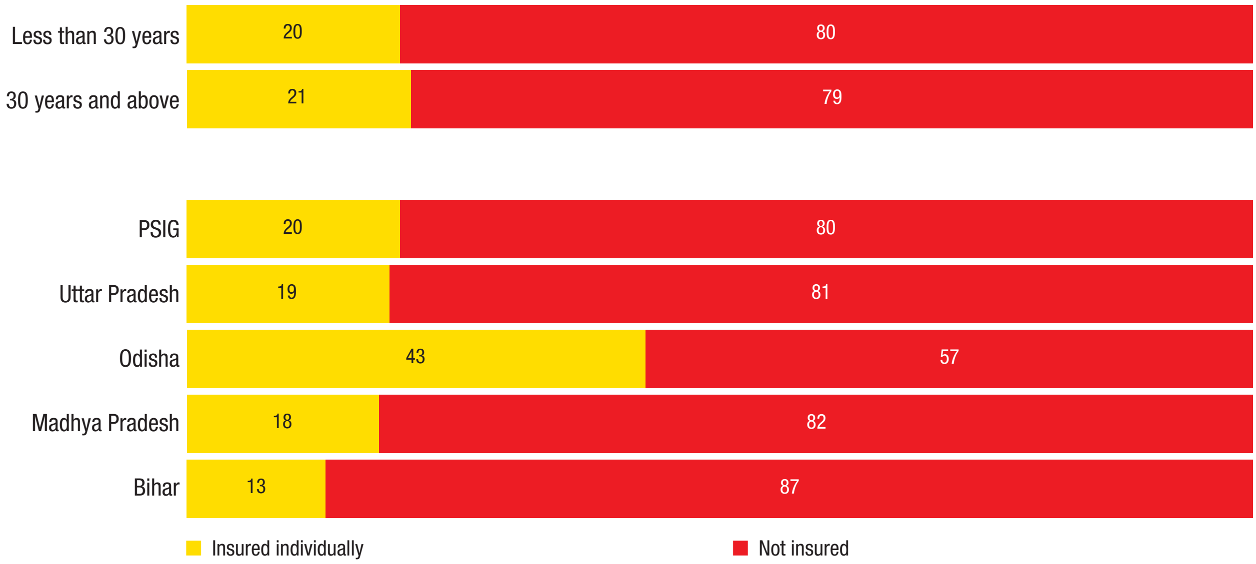
Figure 51: Landscape of non-bank formal product access



9.1. Insurance sector product uptake and usage

As mentioned in section 5.2, risk poses a significant amount of strain on individuals and households alike especially if it is not covered. This has direct implications on the quality of one's life. The study explored the risks and hardships that people may experience and which products they would use in covering such risks. In total, 20% (54.1 million) adults in the PSIG states have/use insurance products. The proportion of adults who are insured varies significantly from 43% in Odisha state to only 13% in Bihar.

Figure 52: Proportion of adults who are insured (%)



The following Figures (53 and 54) show the results by gender and area type. When exploring the results using gender, males (24%) are more insured than females (16%). As most males are typically heads of households they may tend to have insurance products in their names. On the other hand, adults in urban (24%) areas are more insured than those in rural (19%) areas. This is possibly due to generally higher salaries in urban areas. The age variable was also used but no notable differences were found amongst age categories.

Figure 53: Insurance distribution by gender

Figure 54: Insurance distribution by area

Insurance in the PSIG states is mainly driven by the uptake of life insurance. The reported main barrier to insurance penetration (Figure 55) in PSIG relates to affordability (nearly two in three adults reported that they cannot afford insurance).

Table 37: Drivers of insurance uptake (%)

Drivers	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Life insurance	94	96	61	93	85
Medical insurance	12	5	53	8	19
Motor vehicle Insurance	5	11	2	21	12

The barriers to the uptake of insurance products are presented in Figure 55, which shows that most of the adults in PSIG states have reported that they cannot afford insurance. Intuitively, this implies that there is a need for a targeted financial education initiative that would address the lack of understanding (10%) and awareness of the benefits of insurance as 12% reported that they do not think they need it. This financial education initiative would also include those that have reported that they have not heard about insurance.

Figure 55: Main reasons for not having insurance

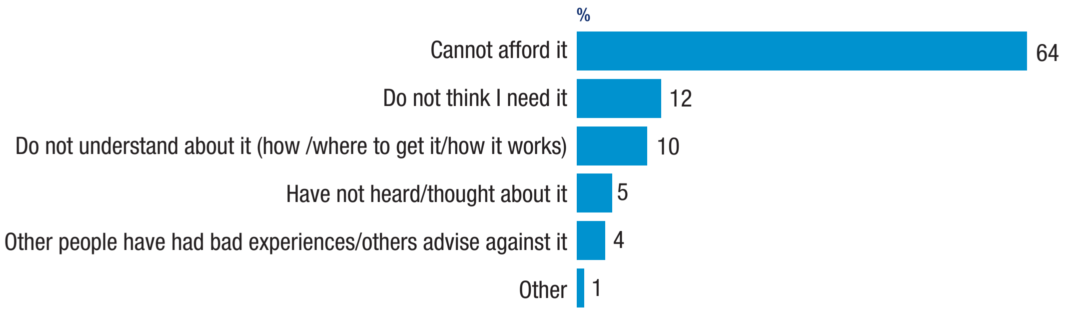


Table 38 gives an overview of the characteristics of the adults who are insured, indicating that the uptake of insurance skews towards men, people with higher education and living in the state of Odisha. It aids in identifying skews pertaining to the insured population. Therefore, the uptake of insurance is skewed towards:

- Madhya Pradesh
- Males
- Post-secondary

In an effort to increase the uptake of insurance, areas where interventions needs to be targeted are:

- Bihar
- Females
- No formal schooling

Table 38: Distribution of the insured population

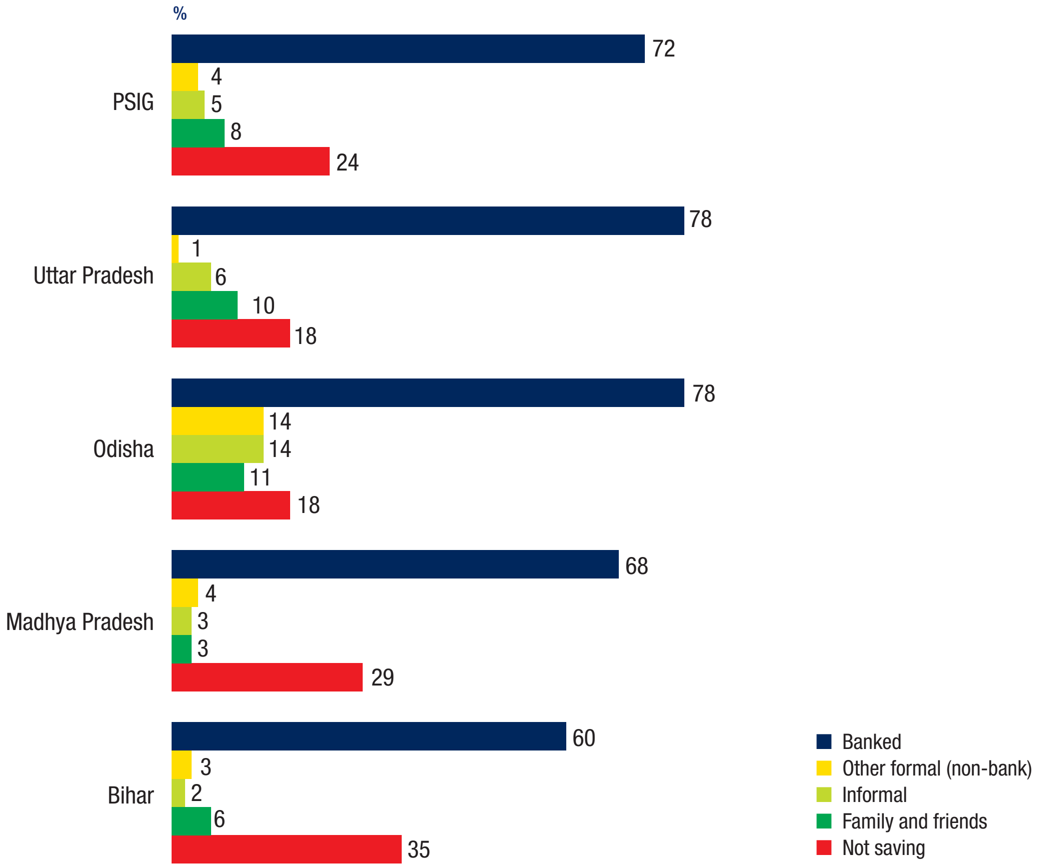
Geographic distribution	Total population %	Insured population %
Rural	80	80
Urban	20	20
States		
Bihar	24	15
Madhya Pradesh	18	17
Odisha	12	25
Uttar Pradesh	46	43
Gender		
Male	52	62
Female	48	38
Age distribution		
18 to 29 years	30	29
30 to 39 years	26	25
40 to 49 years	19	21
50 to 59 years	12	12
Older than 60 years	13	13
Income generating activities		
Money from agriculture	55	58
Part time job	46	40
Own business (not agriculture related)	18	20
Salary	15	15
Remittances	10	9
Government grants	9	11
Levels of education		
No formal school	31	16
Primary school	36	35
Secondary school	25	33
Post-secondary	8	14

10. Savings

While in Section 5.1, Table 26 illustrated that most adults defined savings as keeping money safe (43%) and Table 27 indicated that 54% of adults believed that money needs to be kept for at least a year to be defined as savings. This section looks at the type of products used and ways that adults save.

Savings are the leading product type and one of the main drivers for financial inclusion for the entire PSIG. This is encouraging as savings enable adults to create wealth, pay for household furniture and equipment and as can be used as collateral for accessing credit. Figure 56 illustrates that 72% of adults save through banks – where Uttar Pradesh and Odisha are leading states in savings through banks. Overall, only 24% of the adults do not save.

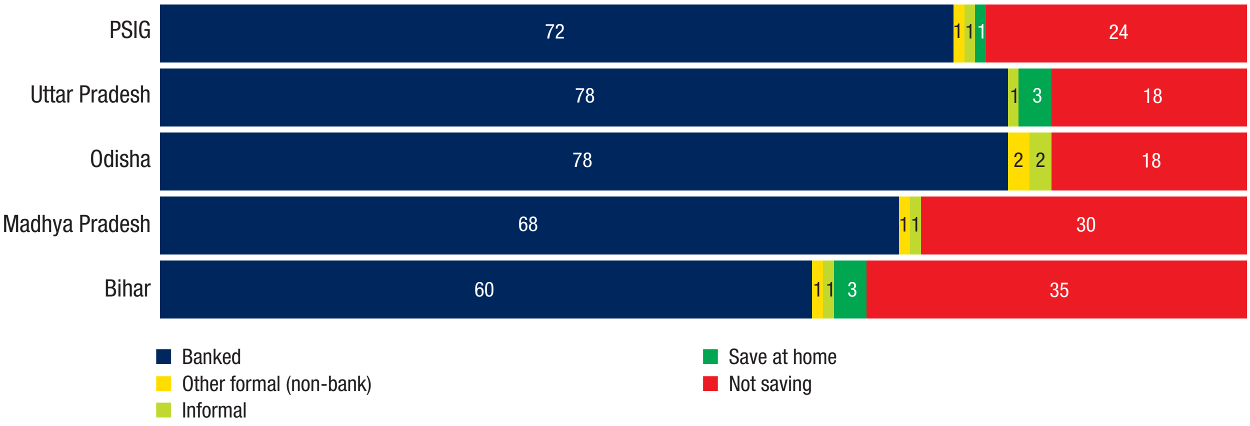
Figure 56: Savings overall



According to Figure 57, the savings strand shows that for PSIG:

- 72% of adults save in banks;
- 1% save in other formal non-bank institutions;
- 1% have savings in informal facilities;
- 24% do not save at all.

Figure 57: Savings Strand by state



Figures 58 and 59 show that there is not much variation between savings by area type and gender. This means that the adults in the rural or urban areas use banking services to save money and similarly for males and females. The incidence of the adults who save in other formal non-bank financial institutions is low.

Figure 58: Savings Strand by area type

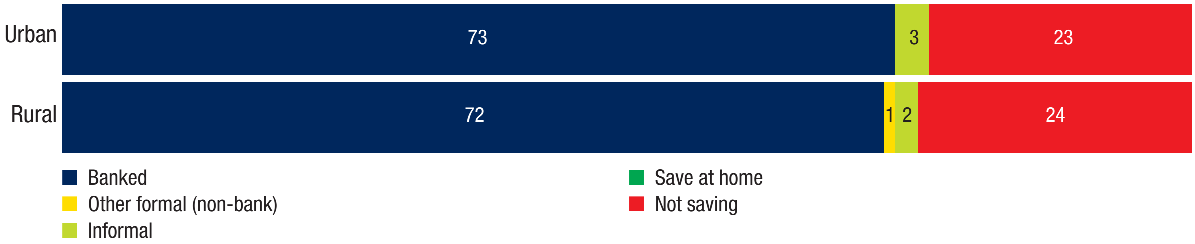


Figure 59: Savings Strand by gender

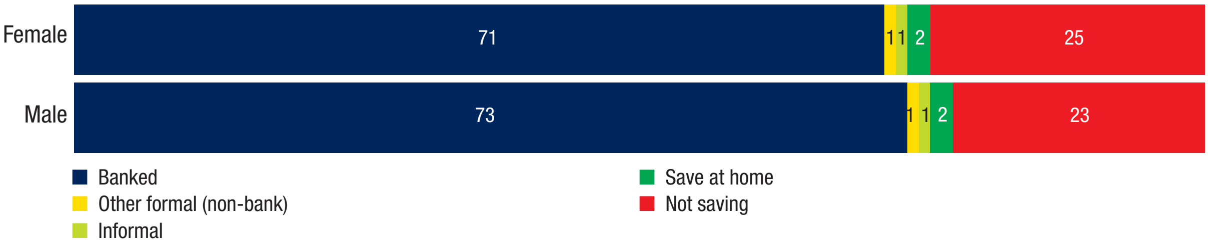


Table 39 below gives an overview of the characteristics of adults using formal savings mechanisms indicating that saving activities are not significantly differentiated as compared to insurance penetration. The proportion of those that did not save at all was higher in the age category of 18 to 29 years.

Table 39: Distribution of the formal savings account holders

Geographic distribution	Total population %	Population with formal savings account %
Rural	80	80
Urban	20	20
States		
Bihar	24	19
Madhya Pradesh	18	17
Odisha	12	13
Uttar Pradesh	46	49
Gender		
Male	52	55
Female	48	45
Age distribution		
18 to 29 years	30	29
30 to 39 years	26	25
40 to 49 years	19	21
50 to 59 years	12	12
Older than 60 years	13	13
Income generating activities		
Money from agriculture	55	56
Part time job	46	45
Own business (not agriculture related)	18	19
Salary	15	15
Remittances	10	10
Government grants	9	9
Levels of education		
No formal school	31	27
Primary school	36	36
Secondary school	25	26
Post-secondary	8	10

The main reasons for saving vary slightly across the PSIG states (see Figure 60 and Table 40): Adults mainly save for medical emergency, followed by family events such as weddings. The adult population in Odisha seem to have more savings targeted for medical emergencies (70%) and other unforeseen needs (50%). About 44% (84.5 million) adults save for developmental purposes (i.e. savings for education, farming, business, building and landed property). The savings for developmental purposes behaviour skews towards Uttar Pradesh states, largely driven by saving for education and agriculture purposes.

Figure 60: Drivers for formal savings account for PSIG states

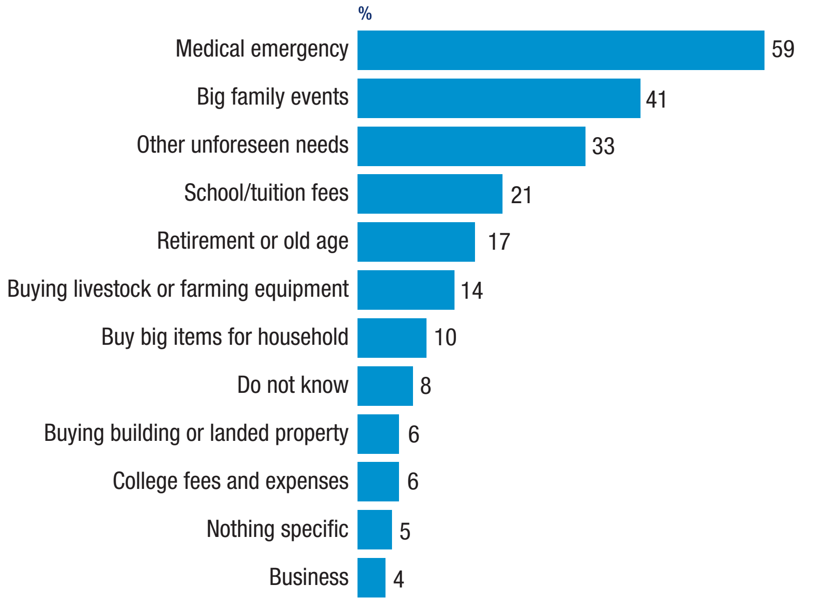


Table 40: Drivers for formal savings account by states (%)

Reasons for savings	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Medical emergency	64	40	70	60	59
Big family events	46	36	25	46	41
Other unforeseen needs	40	28	50	27	33
School/tuition fees	10	16	9	29	21
Retirement or old age	7	4	24	23	17
Buying livestock or farming equipment	4	12	6	19	14
Buy big items for household	12	12	7	8	10
College fees and expenses	2	2	3	9	6
Buying building or landed property	10	5	6	4	6
Business	3	6	2	4	4
Nothing specific	5	8	3	4	5
Do not know	1	18	-	10	8

11. Borrowing and Credit

In this section the study sought to find out the proportion of adults (not households) that borrow money or use credit to finance capital purchases, daily consumption or other needs like agricultural inputs. In the entire PSIG, 6% of adults have credit facilities from banking institution while 4% have credit from other formal non-bank financial institutions. For the state of MP, the credit uptake at household level reported from the AIDIS 2013 was higher with more than 16% of households having farm loans from banks through Kisan credit cards. Surprisingly, many adults seek credit from informal sources (11%) and Bihar seems to be the state that has the highest such incidence with 24%.This is important to flag as the requirements to access credit from informal sources are different to the requirements needed by formal institution.

Figure 61: Credit overalls

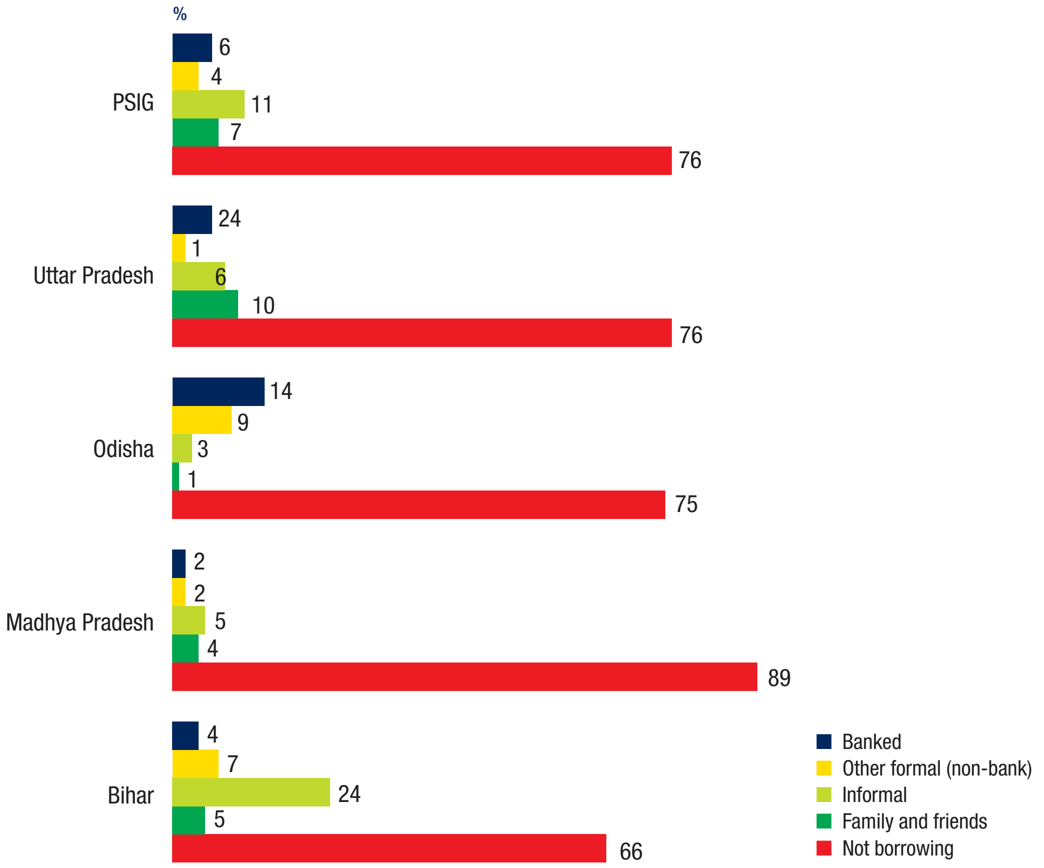
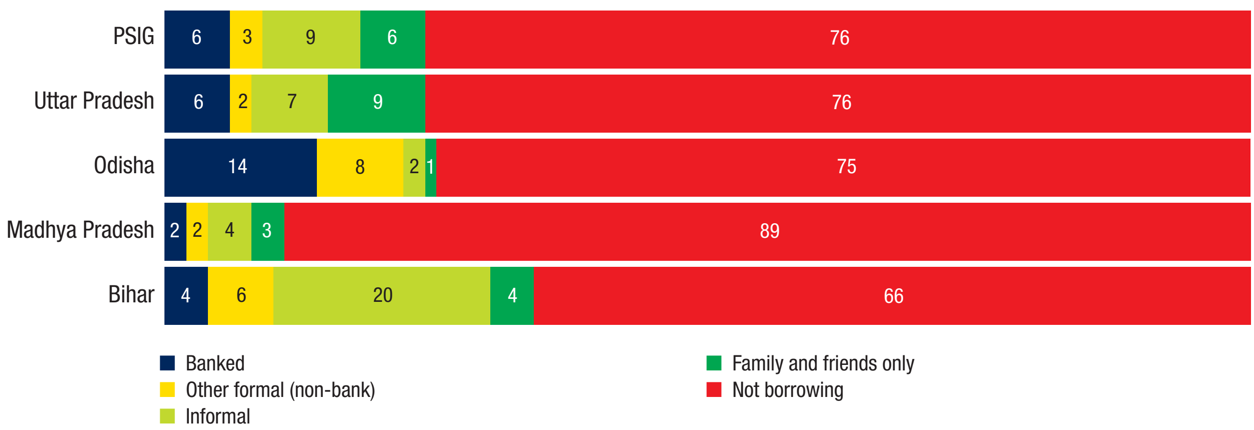


Figure 62: Credit Strand (%)



Comparing credit through gender, there is no difference between males and females, (see Figure 63). Intuitively, borrowing from informal (10%) and friends and family (6%) is evident in rural areas where the presence of formal institutions is low (Figure 64). The number of adults in rural areas (26%) that borrow is more than those in urban settings (16%).

Figure 63: Credit Strand by gender

Figure 64: Credit Strand by area type

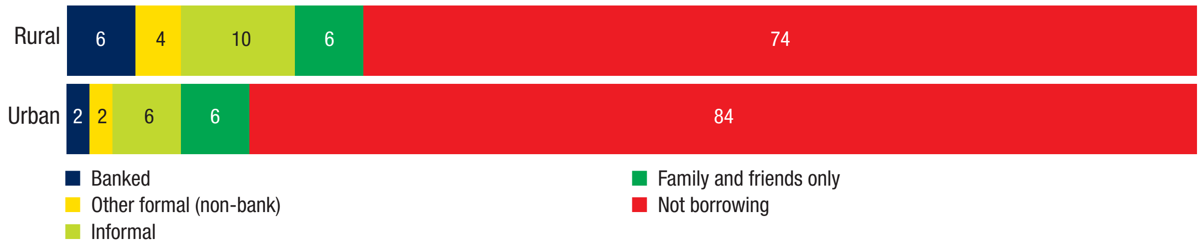


Table 41 gives an overview of the characteristics of adults using formal credit accounts illustrating that the profile of those with credit was significantly skewed towards:

- Rural
- Odisha state
- Male
- Business owners (non-agriculture)
- Secondary and Post-secondary

Table 41: Distribution of the borrowing/credit account holder

Geographic distribution	Total population %	Population with formal borrowing accounts %
Rural	80	89
Urban	20	11
States		
Bihar	24	26
Madhya Pradesh	18	8
Odisha	12	28
Uttar Pradesh	46	37
Gender		
Male	52	58
Female	48	42
Age distribution		
18 to 29 years	30	29
30 to 39 years	26	25
40 to 49 years	19	21
50 to 59 years	12	12
Older than 60 years	13	13
Main income generating activities		
Money from agriculture	55	57
Part time job	46	39
Own business (not agriculture related)	18	24
Salary	15	13
Remittances	10	10
Government grants	9	10
Levels of education		
No formal school	31	24
Primary school	36	38
Secondary school	25	30
Post-secondary	8	8

About 2 in 3 adults (15.4 million) who have formal credit accounts use their money for productive reasons. Developmental credit (i.e. borrowing for education, farming, business, building and landed property) is largely driven by borrowing for agriculture and starting or expanding business (see Figure 65). Borrowing for developmental purposes behaviour skews towards Madhya Pradesh and Odisha states (Table 42). As noted earlier, Uttar Pradesh largely uses savings for productive activities.

Figure 65: Drivers for those with formal credit account

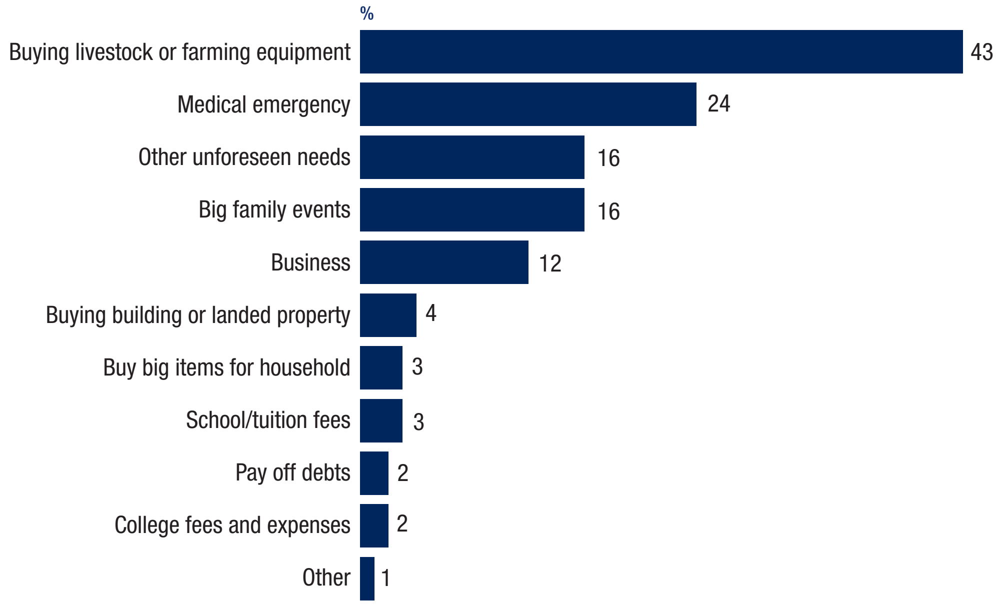


Table 42: Drivers for those with formal credit account by states (%)

Reasons for borrowing	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Big family events	18	17	19	13	16
Medical emergency	32	20	12	29	24
Other unforeseen needs	15	–	19	14	16
School/tuition fees	1	–	1	7	3
College fees and expenses	2	1	1	2	2
Buy big items for household	2	3	2	6	3
Buying building or landed property	7	3	1	5	4
Pay off debts	1	–	6	1	2
Buying livestock or farming equipment	23	56	53	46	43
Business	15	14	9	11	12
Other	3	1	–	–	1

12. Remittances

Around 17.6 million (8%) of adults in the PSIG states either sent and/or received money from people living in a different place. The most common mechanism used to transfer money is through formal channels – banking sector (65%) as shown in Figure 66.

Figure 66: Proportion of adults remitting

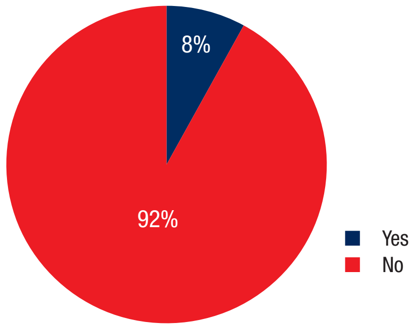
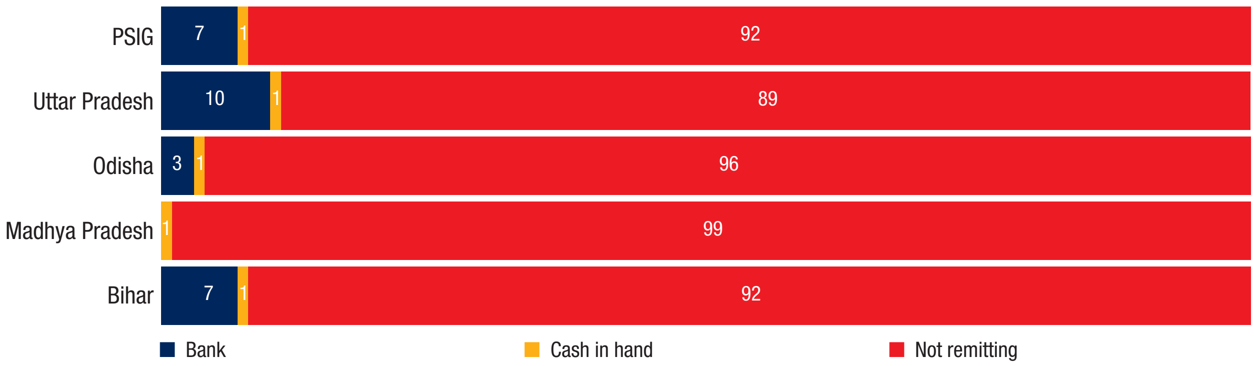


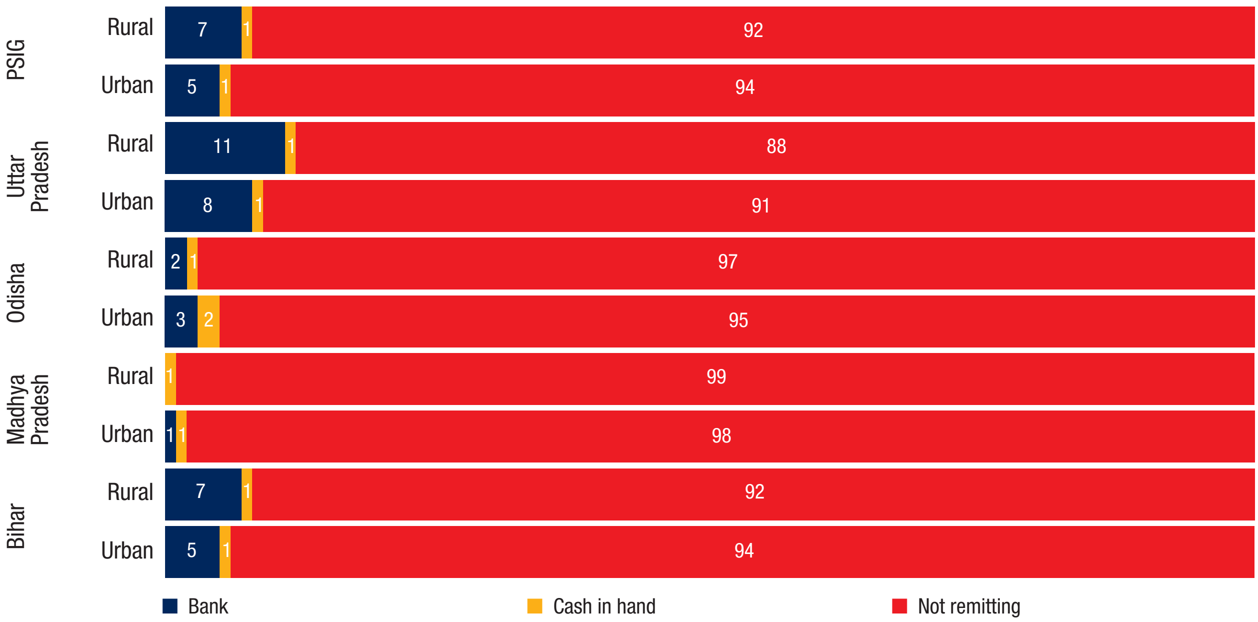
Figure 67 illustrates that Odisha (13%) and Uttar Pradesh (11%) have the highest numbers of adults sending or receiving remittances. Table 43 also shows that for the four states, the preferred channels of sending or receiving remittances is the bank.

Figure 67: Remittances Strand



When looking at the rural and urban remittances distribution, it is noted that rural seems to be doing better with 8% compared to urban (6%). This was expected, as the probability is that the adults in poor states and especially the rural areas are more likely to be the recipients of remittances – i.e. the flow of money is towards rural areas. On the subject of remittances, FinScope findings were different (lower in some states) as explained previously. The remittances figures reported in most FinScope surveys are of adults who sent or received money to or from another place in the past 6 or 12 months.

Figure 68: Remittances Strand by area type



The main channel used by adults to send money within the PSIG states is through the bank (65%) followed by the use of friends or family at 29% as seen in Table 43. Bihar has the highest rate of bank usage with 78%, while Uttar Pradesh lags behind with 57%.

Table 43: Channel of sending money (%)

Channels of sending money	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Bank transfer	78	62	76	57	65
Friends or family	18	25	18	35	29
Post Office	1	0	6	2	2
Western Union	2	0	0	0	1
Informal agent	2	0	0	1	1
Mobile money	0	0	0	1	1
Other	0	13	0	5	5

Most remitters send money to family members (86%) or to friends (11%) as observed in Table 44. The use of the Post Office is minimal at 2% at the PSIG level and only 1% through mobile money.

Table 44 : Recipient of money (%)

Recipients of money	Bihar	Madhya Pradesh	Odisha	Uttar Pradesh	PSIG
Family members	92	53	87	85	86
Friend	4	27	13	13	11
Business/supplier	2	5	0	1	2
Someone you borrowed from	2	11	0	0	1
Other	0	4	0	0	0

The next section looks at the conclusions and recommendations of this study.

13. Conclusions and opportunities

13.1. Conclusions

13.1.1. Financial inclusion

The Poorest States Inclusive Growth project (PSIG) states enjoy high levels of financial inclusion. In terms of availability of financial services infrastructure, the PSIG states seem to be well placed. The average time taken to access formal financial services such as a bank, ATM and Post Office is 30 minutes. The level of connectivity is also high, reflected by high numbers of adults using mobile phones. Documentation which are critical components in adults having access to formal financial services are not an issue, given that 98% of adults have some kind of identity document.

These enablers together with the ambitious project of the Pradhan Mantri Jan Dhan Yojana accounts, enabled 78.63 million people to open savings accounts with banks. The PSIG states have an interesting twist to the FinScope norms, whereby the determinants of financial inclusion are used to create a practical way of understanding the realities of people and their surrounding areas- using demographic variables such as age, gender, level of education, source of income and type of area they live in. In most cases, the FinScope experience has shown that those with higher levels of education, males, those with regular sources of income and the urbanised are more likely to be included (formally included).

These findings are justified by the presence of financial institutions in rural areas and the good coverage of regional rural banks.

Financial Inclusion in these states (PSIG) is driven by banking products. However, the landscape of banking products indicates that banking clients are mainly served in terms of their saving needs (88% of banked population use it for saving compared to 46% who reported transactional products).

The second driver of formal financial accounts is insurance penetration, at 20% of the adult population. However, two behavioural issues are noted:

(i) under reporting of life insurance (only 46.2 million adults claimed to have life insurance in the PSIG states), despite the fact that the PMJDY scheme launched in August 2014 by the Prime Minister offers various benefits for the poor families including gaining of a life cover insurance worth ₹30 000. This could mean two things; the lack of awareness of this benefit due to its embedded nature, and the dormancy of the banking accounts.

(ii) The second area of focus would be on medical insurance, given the fact that illness within households or families require medical expenses. Although most households experience hardships or financial risk, few households claim to have heath/medical insurance. Other households used their savings for medical expenses.

Despite the Indian Finance Minister's aspirations that each individual in every household should have a financial account and the fact that 92% of households in the PSIG states have bank accounts, there are 74 million adult individuals who are unbanked in these states. The unbanked population is typically without formal education, more likely to be female and more concentrated in the state of Bihar.

13.1.2. Financial product usage

Despite its importance as an indicator for measuring financial inclusion, access and to some degree having a product is not the most important aspect of financial inclusion. Although 72% (193 million) of the population is banked only 54.7 million adults reported using accounts to make or receive payments in the past 12 months and only 20.6 million adults receive their income through a bank account. About 25.5 million adults in the PSIG states have inactive bank account. Only 129 million (66% of the banked population) use their bank accounts on a monthly basis to either initiate transactions such as withdrawal of cash at a branch or automated teller machine (ATM), payment by cheque, transfer of funds through Internet banking, phone banking or ATMs. The results show the use of banking accounts for the purposes of saving money. Payments in these states are mostly cash-based (i.e., food, clothes, bills, services and even larger household appliances are paid for in cash by more than 90% of adults). The preference for cash is a behaviour and literacy issue that needs attention.

13.2. Opportunities

Based on this report, opportunities to bring the financially excluded into the fold of financial inclusion and increase usage of financial products include the following:

a. **Use of mobile technology for improved access of financial services:**
Leveraging the wide penetration of mobile handsets (82%), interventions aligning with digital finance may be designed with the delivery of product and service information being done through mobile phone. Financial education programmes to utilize the opportunity by broadcasting animated messages/ video in local language for larger outreach of information/ knowledge dissemination.

b. **Affordable and Clean Energy:**
In the line of Sustainable Development Goal 7 "Affordable and Clean Energy" interventions promoting alternative/ non-conventional energy usage such as solar cooker, smoke-less stove, etc. should be promoted through various delivery models (MFI and SHPI). Innovative product design and promotion needs to be made to ensure the existing potential and providing opportunity to reduce expenses on energy and health. LPG/ PNG being the second biggest source of energy for cooking, the current usage status of LPG after the Ujjwala scheme by Government of India for providing LPG connections in rural areas needs to be explored.

c. **Access to agriculture financing:**
The nexus between livelihoods, financial inclusion and economic growth is of great importance to India. However, access to agriculture financing in the PSIG states as a coping mechanism is under-researched and may need further exploratory studies. The support of a bigger body of knowledge should back policymakers and Government to intervene in the agriculture sector with greater understanding of what areas need intervention. The KCC channel of financing to agriculture needs to be revamped with effective delivery of service to the farming community.

d. **Innovative and affordable financial products and delivery channels**
- Continued exploration of options that develop financial products/services that deal with the seasonality, irregularity of income and low incomes (farming and part-time jobs). Innovative banking products/services to enable a less cash-based society. The product development needs to suit differing needs of the consumer such as ultra short-term loans to multi-stage housing loans required.
- Promoting innovative credit products suiting to the needs of the poorest households through MFIs and SHPIs.
- Locally acceptable new insurance products and mass market group insurance products should be introduced. These needs to be facilitated through local agencies for wide spread and delivery (MFI/NGO or a local bank).
- Popularizing social security schemes through financial literacy programmes and also incentivizing MFIs and SHPIs to promote Government sponsored micro insurance products including life, health and crop insurance. However, Government sponsored schemes alone will not suffice. Insurers to be persuaded to launch more products, especially in asset insurance. Aggressive plans to pursue (with sustained efforts) agricultural insurance is also needed.
- Banks should be sensitized to the need for launching processes for savings mobilization that mimic some of the MFI credit processes using BC channel by mobilizing small recurring savings.
- IRDA could be associated to explore further opportunities in piloting alternative delivery channel of insurance products in poorest states.
- Partnering with NRLM in PSIG states for promoting innovative financial products to be delivered through SHG channel.

e. **Financial education programs:**
- Intensified financial literacy program: The objective is to encourage behavioral change that improve their livelihoods
- Financial education programmes should be targeted at the unbanked and the financially excluded since they are more likely to be:
  - ❑ Segmented to females
  - ❑ More on insurance – since 12% of the those who do not have insurance reported that they do not understand how it works, where to get it or do not think they need it
  - ❑ Targeted at Bihar – Bihar lags behind on product uptake and have a higher excluded population
- Financial literacy initiatives should be continued in the PSIG with special emphasis and focus on:
  - ❑ Effective uses of bank accounts for salary/ wages, remittances, insurance and pension, etc.
  - ❑ Change of client's savings practice and behavior and focus on saving through formal institutions and avoiding chit fund and other informal channels

- Using bank or other formal sources for inward and outward remittances and avoid cash remittances. The PSIG will work with SFBs, PBs and BCs for popularizing formal remittance channels

f. **Using bank accounts to receive salary/wages**

- An initiative to drive payment of salaries/income through bank accounts would simultaneously address the dormancy rates of bank accounts and drive more adults to interact with the banking system effectively. This may also be extended to those receiving grants/assistance from the Government, allowing them to gain more from the low cost and safety of using formal services
- With a high penetration of bank products/ accounts, the bundling of other services such as insurance can be beneficial and ultimately reduce the cost to the consumer
- A study may be conducted to explore the BC outreach status, awareness of clients to access BC outlets for financial transaction and the feasibility of BC model with the upcoming market situation after launch of Payments banks and SFBs to recommend the repositioning of BC model
- Promoting more use of Rupay card for transactions will reduce the cash payments. PSIG to intensify support to MFIs, RRBs, etc. for promoting usage of Rupay card and other products to their clients. The flexibility to access cash from a nearby place and also at odd hours will determine the success of the move-route payments through bank accounts
- Supporting innovative and affordable channel for delivery of financial services especially credit. One of the ways is by supporting MFIs, SFBs and PBs to pilot last mile delivery of financial services
- Focused activities for the SHG channel of lending and providing other non credit financial services
- Through BC or SHPI channel, Government sponsored insurance products can be piloted
- Piloting BC channel of promoting delivery of financial services in remote areas
- A study of how to improve efficacy of cooperatives needs to be done based on which further planning will be possible

14. Annexures

14.1 Computation of weights at various levels

Weights are assigned to make weighted sample records represent target population as closely as possible. A weight (w_i) indicates number of population elements "represented" by a single sample element. Therefore, the sum of the weights, $\sum w_i = N$ should be equal to the population total of elements.

Weights are usually developed in different stages to compensate for:

- Unequal inclusion probabilities
- Non- response (which in this study is not a factor)
- Non-coverage and skewness resulting from sample design and fieldwork.

In order to obtain a representative sample of the population, a multistage stratified sample is designed with state and geographic area (Urban/Rural) as the explicit stratification variable. The sample was designed in three stages. In the first stage primary sampling units (PSU) – i.e. the Clusters – were selected with probability proportional to size (PPS) of the 2011 population number of households as a measure of size. The weight of a PSU (i.e. Cluster) is given by,

$$W_{PSU} = \left(n_{EA} \frac{PSU_{HH11}}{POP_{HH11}} \right)^{-1}$$

Where,

n_{PSU} is the realised number of PSUs in the state,

PSU_{HH11} the 2011 Census number of households in the selected PSU, and

Pop_{HH11} is the 2011 Census number of households in the selected state.

In the second stage households were selected in each PSU in the sample. Officially, census 2011 household counts were available per PSU. The **household weight** per PSU is given by,

$$W_{HH} = W_{PSU} \left(\frac{n_{HH}}{PSU_{HH}} \right)^{-1}$$

Where,

n_{HH} is the number of selected households per PSU and

PSU_{HH} is the number of household in the selected PSU.

The respondent weight is given by, $W_{PP} = W_H * n_{18+,}$

Where,

n_{18+} is the number (or average number) of persons aged 18 years and older in the selected household.

14.2 Comparison of key financial inclusion indicators

Descriptor	FinScope	AIDIS	FINDEX
Objective of survey	Measure level of financial inclusion to formal and informal products and services, describe the landscape of access and driver and barriers to usage of financial products and services.	Study the demand for credit from rural families and the supply of credit from credit agencies both institutional and non-institutional.	To fill a major gap in the financial inclusion data landscape through a database documenting financial usage across a myriad of variables.
Scope	Adults, Households	Household	Adults
Geography	PSIG states only	All India	All India
Sampling	Three stage sampling	Two stage sampling	–
Credit variables	Currently borrowing from all sources categorized by formality, credit strand and borrowing products/institution	Incidence of Indebtedness (IOI) and amount of debt (AOD), variation of IOI and debt-asset ratio	Borrowed in the past year from a formal financial institution and also form informal sources
Household occupational categories	Using source of income – agriculture, part-time job, self employed, salary, remittances and government grants	Cultivator, non-cultivator, self-employed, regular wage/salary earning, casual labour and others	NA
Asset ownership	Asset ownership for household (not the value of the assets)	Average value of assets and share of different components of assets in the total value of assets	NA

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