8.1 This concluding chapter seeks to draw overall conclusion from the study and extract the policy implications thereof. To facilitate such inferences the broad findings of the study have been recapitulated in the following section.

8.2 Recapitulation of Broad Findings of the Study

8.2.1 Financial Inclusion in Assam: Household Level Evidence

As per NSSO 59th Round (2002), the physical access to financial services in rural Assam is much below all-India average. Only 34 per cent of the villages in rural Assam have easy financial access in the sense of having a bank branch within the village or within five kilometres, whereas the all-India figure is 52 per cent. Around two-fifth (39 per cent) of the villages in Assam as compared to all-India figure of 23 percent do not have access to financial services as these villages do not have a bank branch within a distance of 10 kilometres.

There has been a significant improvement in the percentage of households availing banking services in Assam in general and rural areas of Assam in particular during the period 2001-2011. The percentage of total households and rural households availing banking services in Assam in 2011 increases to 44 per cent and 38.3 per cent from a decade old figure of 20.5 per cent and 15 per cent respectively. Despite this remarkable growth, the position of Assam is far from being satisfactory, if seen in all-India context with only three states, namely,
Manipur, Nagaland and Meghalaya, having lower percentage of households having banking services in 2011.

- In terms of banking services, 56 per cent of total households and 62 per cent of rural households in Assam in 2011 are financially excluded as they did not have any bank account.

- There have been wide-spread rural-urban disparities in availing banking services in the state. In 2011, while more than three-fourth urban households have a bank account, less than two-fifth rural households hold a bank account in Assam.

- The number of households availing banking services varies widely across the districts. Kamrup Metro and Hailakandi have recorded highest percentage of households availing banking services in urban and rural areas respectively.

- Significant rural-urban disparities have also been observed across the districts.

- The incidence of indebtedness (IOI) increased marginally in Assam during the period from 1981 to 2002 and the IOI for rural and urban areas of Assam in 2002 stood at 7.5 per cent and 6 per cent respectively which was far below the all-India figures of 26.5 per cent and 17.8 per cent respectively. In Assam, only 1.6 per cent rural households were found to be indebted to institutional agencies as against the all-India figure of 13.4 per cent.

- However, the share of institutional agencies in outstanding cash debt in Assam has been consistently higher than all-India share during 1981-2002. In 2002, the share of institutional agencies in terms of percentage of amount of cash loans outstanding in rural areas (rural credit) in Assam and India were 57.9 per cent and 57.1 per cent respectively.
Among the institutional agencies, commercial banks including RRBs, government, co-operative societies/banks and provident fund whereas among the non-institutional agencies, moneylenders and relatives and friends have been the prominent agencies for rural credit in Assam during the period of 1962-2002.

8.2.2 Financial Inclusion in Assam: Evidence from Banks/Other Institutions Data

- The penetration of banking in Assam in general and rural Assam in particular has traditionally been very low.
- Nationalization of banks in 1969 and subsequent initiatives brought rapid progress in the banking sector in Assam. The trend analysis of key banking parameters (no. of branches, deposits and credit) of Assam and India indicates that the growth in these three key parameters during 1972-1991 was significantly higher in Assam than the all-India average and the percentage share of Assam in all three parameters was highest during 1991. However, despite all this considerable growth, Assam remained far behind in comparison to other states and even India.
- Similarly, the average population served per bank branch (APPBO) in Assam declined sharply to 18000 in 1991 from nearly 200000 in 1967. The rural APPBO in Assam also came down to 22747 in 1991 from 59301 in 1981.
- However, the post-reforms period has witnessed a slowdown in the growth of three key banking parameters, i.e., number of branches, deposits and credit in Assam vis-à-vis India. The downward trend is more severe in rural Assam.
Most of the rural banking parameters, barring CD ratio, have underperformed in comparison to the parameters of other population-group (semi-urban and urban) and its share has reduced during the period 2001-2011. The number of bank branches in the rural areas, in fact, came down during the period 2001-2011 whereas during the same period the number of urban branches almost doubled.

In 2011, rural APPBO and total APPBO in Assam was 33392 and 20724 as against all-India figures of 24999 and 13581 respectively.

Although the accessibility of banking services, which is measured by deposits accounts and credit accounts per 100 persons/adults, has been consistently low both in Assam as well as in rural Assam, the credit account penetration is quite dismal.

The per capita deposits and credit of Assam remains markedly lower than the national average. Per capita deposit of Assam in 2011 was around 45 per cent of all-India average whereas per capita credit was only 20 per cent of the all-India average.

There has been a huge gap in the CD ratio of Assam and India. The trend analysis of CD ratio indicates that the gap between the two started narrowing since 1975 and reached the lowest in 1991 before again widening in the post-reforms period. In 2011, the gap was as wide as 40 percentage points.

Although the regional rural banks (RRBs) have 27 per cent of total bank branches in Assam, its share in terms of deposits and credit is only 7.9 per cent and 10.6 per cent respectively.

A significant progress in the number of ‘no-frills’ accounts (NFAs) opened by banks have been observed in Assam during the five years period of 2006-11.
The number of NFAs has increased to around 30 lakh from a mere 50000 in 2006, which is almost 20 per cent of total deposits accounts.

✔ As against 7.4 lakh Kisan Credit Cards (KCCs), only 75000 General Credit Cards (GCCs) have been issued up to March 2011. While the KCC scheme covers around 29 per cent of the total farmer family of the state, the performance of banks in issuing GCCs is far from satisfactory.

✔ Business Correspondent (BC)/Business Facilitator (BF) channel has not been much success in Assam. Despite having conducive policy environment for the BC/BF channels, only the State Bank of India has been able to operationalise the channel with some success in Assam.

✔ The performance of banks in Assam in terms of priority sector lending and advances to agriculture and allied activities have been quite good and banks have been achieving all related targets comprehensively.

✔ As per NABARD estimates, almost half of the rural households are covered under SHG-Bank linkages programme in Assam whereas the figure for all-India is marginally higher in 2011.

✔ As against 1504 bank branches, there are 4005 post offices (3719 in the rural areas) in Assam as on March 2011. On an average, 7783 population are served by a post office in Assam and 7201 population in rural Assam whereas the number of population served by a bank branch in Assam as a whole and in rural area is 20700 and 33400 respectively. This indicates that post offices have better outreach in Assam and especially in rural Assam and if utilized properly can play an important role in promoting financial inclusion in Assam in general and rural Assam in particular.
As a whole the figures indicate that the recent initiatives have met with some success in the state of Assam. However, a lot more needs to be done to achieve desired level of financial inclusion.

8.2.3 Extent of Financial Inclusion in Assam: District Level Evidence

Kamrup (Metro) ranks the highest in terms of index value calculated for both the total financial inclusion and rural financial inclusion and is placed in ‘High Financial Inclusion’ category in both. Baksa and Dhubri scored the lowest for total financial inclusion and rural financial inclusion respectively.

In terms of total financial inclusion, Kamrup Metro is followed by Kamrup, Dibrugarh, Jorhat and Nalbari whereas Baksa, Dhubri, Kokrajhar, Chirang and Goalpara are the bottom five districts.

In terms of rural financial inclusion, Kamrup Metro again leads with the highest index value of financial inclusion followed by Nalbari, Kamrup, Jorhat and Dibrugarh. Interestingly, the same five districts occupy the top five positions in total financial inclusion. Dhubri, Hailakandi, Kokrajhar, Bongaigaon and Dhemaji are the bottom five districts.

Assam performs better in terms of rural financial inclusion than total financial inclusion.

Census figures on households availing banking facilities and the index values based on banking parameters provide contradictory picture. Census data placed Hailakandi among one of the top performing districts of Assam whereas according to index value, it is among the lowest ranked districts.
8.2.4 Sample Households’ Behaviour towards Financial Services

- More than 92 per cent households are found to have bank accounts, but only 77 per cent households have savings with formal sources. This implies that having only bank accounts does not ensure its usage.

- Doing savings followed by receiving payment from government schemes and receiving salary are the top three reasons for households opening bank accounts.

- The awareness of the seven selected financial products and services among the sample households is found to be quite low and the usage level is even lower.

- Future uncertainties/emergency (34%) followed by children education (17%), safety purpose, social function and purchase of household goods (each 11%) are the prime reasons for households to do savings. Savings for safety purpose and social function are mainly prominent in Hailakandi whereas purchase of household goods and housing purpose are in Nalbari.

- The prime reasons of borrowing in the sample rural households are business loan followed by housing loan, agricultural loan, purchase of assets and vehicle loan. Borrowings for housing purpose as well as for purchase of household goods are mainly prominent in Nalbari which supplement the savings behaviour of the households of Nalbari.

- 86.9 per cent households have access to savings with any channels, out of which 77.2 per cent have access to formal sources. Only 6 per cent households are those which do not have access to formal sources but have access to semi-formal sources whereas 3.7 per cent households have access to informal sources only.
As against 86.9 per cent households having access to savings, only 38.6 per cent households have access to credit through all means, out of which 25.5 per cent have access to formal sources. Households of Nalbari have higher access to credit facilities from all sources than Hailakandi.

As high as 61.4 per cent households do not have access to credit at all whereas the figure for savings is 13.1 per cent.

Semi-formal sources and informal sources provide access to savings to 39 per cent and 33.3 per cent households respectively and these contribute 23.8 per cent and 16.7 per cent of total savings accounts respectively.

The dominance of semi-formal and informal sources is more prominent in Nalbari for both savings and credit services. In fact, informal sources are the most prominent source of savings in Nalbari, even surpassing formal sources, whereas in Hailakandi these sources are not prominent at all.

On an average, there are 201 savings accounts and 46 credit accounts per 100 households in the surveyed areas, which indicate a significant deficit in the access to credit facilities to the rural households.

More numbers of savings as well as credit accounts per 100 households are there in Nalbari than in Hailakandi. However, the scenario is just reverse in terms of the number of accounts from formal sources.

Banks, local committees (Xonchois) and NBFCs are the top three sources of savings for the sample households, while for credit services it is banks, local committees (Xonchois) and NGOs/MFIs.

Revealed preference analysis of the sample households indicates that households of Hailakandi give considerable preference to banks over other sources for both savings and credit services. However, the preference for banks
is not same in Nalbari where households have ranked Xonchois as their most preferred source for both savings and credit services.

☑ Over all, rural households ranked banks, post offices and local committees (Xonchois) as top three sources of savings, while for credit services their preference are banks, relatives/friends and local committees (Xonchois) respectively.

☑ Despite the fact that households have ranked post offices as third most preferred sources of savings in both the districts surveyed and post office exist in all the surveyed villages, the number of Post Office Savings Accounts is considerably less. Even the government’s initiative to open the NFAs through post offices seems to be not very popular among the rural households of Assam.

☑ For savings, NBFCs like Sahara India (common in both districts) and Rose Valley (in Hailakandi) and for credit, MFIs, especially Bandhan (in Hailakandi) are also prominent player.

☑ Unexpectedly, two prominent channels of semi-formal sources, SHGs/JLGs and NGOs/MFIs are not found to be much important players in providing financial services to the sample households.

☑ Contrary to the general belief, moneylenders are not found to be the major source of credit among the sample households, neither in inferred preference nor in revealed preference. They are preferred mostly in case of emergency.

☑ The revealed preference analysis of the sample households reflects that still traditional informal sources like Xonchois and relatives/friends are providing financial services to a major portion of the rural households and the new forms of non-conventional banking partners like SHGs, NGOs/MFIs, NBFCs etc. will
have to do lot more to make significant inroad in these areas and contribute noticeably in enhancing financial inclusion in the rural areas of Assam.

✓ Success of Xonchois in lower Assam clearly indicates that the sources/channels which provide multiple services with relative ease and less procedural hurdles are more popular among the rural people.

✓ Savings and credit behaviour of the sample households clearly reflect the mismatch between the supply of institutional products and services and demand pattern of the rural households.

✓ The study shows that the preference for informal sources, which reflects the demand pattern of the households, is because of their overall convenience, door-step availability, easier accessibility, flexibility, quicker delivery, less documentation, tailor-made products, etc., something which the formal sources lack. In contrast, the supply of institutional products and services by the formal sources are rigid, complicated, time consuming, unsuitable, inconvenient, etc.

✓ Only 59% of the sample households have some form of insurance. Although insurance penetration is more in Hailakandi, households of Nalbari are using it for multiple purposes. Among the insurance, life insurance, followed by vehicle insurance and accident insurance are most prominent.

8.2.5 Effectiveness of the Recent Initiatives in the Sample Areas

✓ Only 10.5 per cent households in the sample areas have opened no-frill account (NFA). No overdraft facility has been provided to any NFA holders in the sample areas. It has also been found that awareness regarding NFA and overdraft facility is very low among its non-users.
✓ Only 7.9 per cent sample households have access to either KCC or GCC facility, with KCCs having major share. However, these accounts constitute around 30 per cent of the total formal credit accounts in the surveyed districts. KCC and GCC facilities are more popular in Nalbari than in Hailakandi.

✓ Almost all households surveyed are found to be unaware about the BC/BF model. The model is still in its nascent stage in the state and needs to look into the issues related to channel capacity, business viability, risk, etc. to make it sustainable and more effective.

8.2.6 Extent of Financial Inclusion/Exclusion in the Sample Households

✓ Primary data analysis shows that extent of exclusion is less than expected as only 14 per cent sample households are found to be fully financially excluded. The extent of exclusion is more in Nalbari (20%) than Hailakandi (8%).

✓ Wage earners/labourers and farmers, STs and minorities households with low economic status are more excluded than the others.

✓ The extent of financial inclusion among the surveyed households is 86 per cent, indicating that 86 per cent sample households have access to at least one financial service (out of three considered, i.e. savings, credit and insurance) from either formal or semi-formal sources. The extent of financial inclusion is found to be more among the sample households of Hailakandi than Nalbari.

✓ One of the possible reasons for higher inclusion in the rural areas may be the account opened for receiving payments from NREGA and other government services, which is second most important reason for opening bank account.
There is a wide variation in the pattern of financial inclusion and exclusion at all levels (village, block and district).

8.2.7 Depth of Financial Inclusion/Exclusion in the Sample Households

Although the extent of financial inclusion is quite high at 86%, the depth of inclusion is altogether a different matter. There is wide variation in the depth of financial inclusion/exclusion at all levels.

27.7 per cent surveyed households of Nalbari and 21.9 per cent of Hailakandi are found to be partially financially included, whereas the same figures for moderately financially included households are 27.7 per cent and 45.3 per cent respectively. Only 25 per cent surveyed households of both the districts belong to the highly financially included category.

Mean score of the districts surveyed comes at 3.34, indicating moderately included categories in the financial inclusion score. The corresponding mean financial inclusion scores for Nalbari and Hailakandi districts are 3.00 and 3.66 respectively, which indicates that although both the districts surveyed belong to moderately financially included category, the depth of financial inclusion is higher in Hailakandi.

Both the extent and depth of financial inclusion is found to be higher in Hailakandi than Nalbari. This is somewhat different from the results drawn from financial inclusion index.

Households belonging to the schedule tribes are the least financially included followed by schedule castes whereas OBC households are the most financially included followed by the General category. As regards religion, the extent and
The depth of financial inclusion is higher among Hindu households than Muslim households. Bengali speaking households are found to be more financially included than Assamese speaking households.

✓ Female headed households are more financially excluded than their counterparts. Similarly, the extent and depth of financial exclusion is higher among the households who have migrated in the last five years. As regards the number of adult members, there is a positive correlation between the number of adult members of the household and the level of financial inclusion. All these results are in line with the commonly held beliefs.

✓ The depth of financial inclusion increases with the increase in the level of education. Among the various occupations, salaried class is found to be highly financially included, whereas labourers/ wage earners are the least included preceded by farmer households.

✓ A positive correlation between income level of households and the level of financial inclusion have been found. Poor households, i.e, households belonging to BPL category are less included than the households which are not. In contrast, households with higher expenditure are found to be more included.

✓ The study finds a direct correlation between Economic Status Index (ESI) and Financial Inclusion Index or Score. Higher the value of ESI, greater is the mean financial inclusion score and vice-versa.

✓ Around 48 per cent households who do not have any bank account are found to be financially included, though mostly partially financially included. Similarly, among the households having bank accounts, over 10 per cent are financially
excluded. However, a positive correlation has been found between the number of bank accounts and the level of financial inclusion.

The mismatch between the supply of institutional products and services by the formal sources and demand pattern of the rural households has contributed more towards the depth of financial exclusion than the extent of financial exclusion.

8.2.8 Determinants of Financial Inclusion/Exclusion

- Economic status has a positive impact on financial inclusion implying that higher economic status leads to a higher financial inclusion.
- Among the occupation categories, labourers/wage earners are found to be least financially included followed by farmers whereas among the various social groups, OBC category is most included.
- Household adult size has a positive impact on financial inclusion whereas BPL category has negative impact on financial inclusion.
- Social factors do not directly seem to be important. They may still be important as they interact with economic factors.

8.3 Overall Conclusion and Policy Implications

Although the Government of India and RBI are giving ample emphasis on increasing the level of financial inclusion and especially rural financial inclusion, Assam has witnessed a fall in the number of its rural bank branches during the last 20 years, which is a major setback in the entire operation of financial inclusion drive in Assam. Opening of a new rural branch contributes more to the process of financial inclusion by providing proximity to banking facilities than the opening of an urban branch, as a new branch in an unbanked rural area would be resulting in bringing new customers to the
banking fold whereas a new urban branch would be more likely to be sharing the existing customers of the existing banks (Thingalaya et al, 2010). Therefore, reduction in the number of rural bank branches is an unwarranted outcome of the reform initiatives. It was assumed that the non-conventional institutional partners will be able to fill the gap created by reduced number of rural branches, however, these institutions have not been able to make significant inroads and fill up the gap. Therefore, in view of the negative changes which have taken place over time, there is an urgent need to have a fresh look at the existing policy guidelines. The Reserve Bank is expected to intervene in this regard.

The fact that higher percentage of households has bank accounts than households using formal sources for savings and credit needs immediate attention from the policy makers. For proper implementation of financial inclusion, usage of financial products/services is as important as its availability and accessibility. The study indicates that utilization of available and accessible products/services is limited because many of these products/services are either unsuitable to the need of the rural poor or are provided as a single service. Studies of NFAs show that the poor prefer to transact with banks only if banks provide overdraft facilities to meet emergency needs (FICCI, 2011). It seems that lack of overdraft facility is one of the important reasons for the limited success of NFAs in Assam. On the other hand, the huge success of Xonchois in lower Assam clearly indicates that the sources/channels which provide multiple services with relative ease and less procedural hurdles are more popular among the rural people. Therefore, the regulators and policymakers must ensure that what so ever
product/service is devised, it should have some additional features to cater the needs of the ultimate beneficiaries and those features should be made available to them.

The fact that households are keeping substantial savings and taking loans from informal sources points out that the formal sources require to modify/realign its products to cater to the need of the rural households/ultimate beneficiaries. Therefore, banks and other financial institutions need to develop tailor-made products for the poor and weaker sections to cater to their requirements and innovate more flexible delivery mode especially in providing credit facilities.

In the context of North East region including Assam, the need for proper linkage between the formal institutions and community based organizations is quite high as this is expected to reduce the basic problem faced by the formal institutions, i.e., asymmetric information and associated ills significantly (Goyal, 2008). One of the possible areas of intervention in this regard may be the linking of traditional community based organizations like Xonchois with the formal system. The places where Xonchois are found to be active, chit fund companies have not been able to spread much. Flexibility, adaptability (to the various demands of the rural households), high returns on savings, easy and flexible liquidity and close proximity are some of the attributes which makes these one of the most inclusive financial institutions in the state, more particularly in lower Assam covering caste, class and gender (Sharma, 2011). These institutions mobilize a huge chunk of rural deposits and provide credit to large number of households/individuals. Further, these institutions over the years have shown excellent member control, good governance and transparency which increased trust in them. Therefore, it would be appropriate if the regulators and policymakers can look
into the possibility of linking *Xonchois* with formal institutions to take its advantage and coverage for expanding outreach to remote and un-served areas at minimum cost. However, a comprehensive research will be required in this direction and this can be subject matter of another study involving experts in the field of formal and informal sector. In this connection, it can be mentioned that the discussion on mainstreaming the activities of moneylenders has already been initiated for strengthening the synergies between the formal and informal segments, while eliminating its negative characteristics and usurious interest rates (RBI, 2008).

Although in the recent past several initiatives have been undertaken which have the potential to improve the level of financial inclusion, the challenge for the policy makers is to ensure the proper awareness regarding these facilities among its prospective beneficiaries as it has been found that awareness regarding these initiatives is very low among the rural households. Lack of financial literacy is considered as the one of the important hurdles in expanding the coverage of financial services to the marginalized sections of society. In this connection, banks have started setting up Financial Literacy and Credit Counselling Centres (FLCCs) to guide their clients about the features, benefits and risks of various products and services. However, the benefit of such centres has not reached the rural areas. Moreover, banks are also reluctant to promote financial literacy and awareness whole-heartedly because of the cost involved in it. Further, there are several agencies which are working in the same field but there is no synergy in their efforts. Therefore, it is felt appropriate to have a specialized nodal agency for financial literacy campaign which would frame the policies, co-ordinate the efforts of all agencies and bring synergy among those efforts. Moreover, financial
literacy like financial inclusion is in the nature of public good\(^1\) and it brings positive externality in the economy, which can be exploited to the mutual advantage of those excluded, the banking system and the society at large. It also meets the two criteria of non-rivalness in consumption and non-excludability of public good to a large measure and in this sense it is a ‘quasi public good’. Therefore, it would be appropriate if the government funds the entire financial literacy campaign or makes it highly subsidized so that the benefits of the literacy campaign can be widely disseminated.

Despite having conducive policy environment for the BC/BF channel, it has not been able to make expected inroads in the state. The failure of the BC model referred to in the case study proves that the proper co-ordination among various stakeholders and regular assessment of the operations of channel partners need to be taken seriously by the concerned authorities. The BC/BF channel, which is still in its nascent stage in the state needs to look into the issues related to channel capacity, business viability, risk, implementation gaps, etc. to make it sustainable and more effective (IIBM, 2012). As the study has highlighted that the sources/channels which provides multiple services are more popular among the rural people, it would be appropriate to bring as many services (like credit sourcing, recovery, financial literacy programmes, etc.) as possible under the umbrella of BC/BF to make it more popular and increase its viability.

Given the fact that the government is contemplating the utilization of huge postal network for enhancing financial inclusion in the country, especially in the un-served rural area, the result of the study indicates that post offices will require complete revamp in its system, culture, approach, mindset of staff, work culture, etc. Further,\(^1\)

\(^1\) The idea of financial inclusion as ‘public good’ is explained in details by Kelkar (2008).
credit is a basic requirement for majority of customers in the rural areas. Therefore, the success of post offices in reducing financial exclusion seems to be limited until and unless, it also provides credit facilities along with its various services.

Direct cash transfer scheme of government has given more importance to financial inclusion as cash can only be transferred to the beneficiaries if they possess formal account. The business proposition of the direct cash transfer to the bank account is expected to encourage bankers to consider financial inclusion as business opportunity rather than social obligation. However, the biggest hurdle in the implementation of this scheme in Assam is the absence of Aadhaar cards. Further, no other universally acceptable card is available to the rural population. Hence, to make this scheme successful in Assam, the government will have to ensure the early issue of either Aadhaar cards or similar identity proof to its residents so that large section of unbanked population can be integrated into the formal banking system.

As there are no specific surveys to assess the various aspects/dimensions of financial inclusion/exclusion, it is almost impossible to evaluate the extent of financial inclusion/exclusion accurately. Therefore, it is felt that separate periodic surveys relating to different aspects of financial inclusion/exclusion may be conducted. Further, the decadal census may also cover the detailed information relevant to financial inclusion/exclusion.

To conclude, financial inclusion initiatives need to focus on increasing the extent of inclusion by bringing more number of households under the ambit of formal sources. Simultaneously, it should aim at increasing the depth of inclusion by increasing the
usage of various products and services offered by formal sources along with reducing the usage of informal sources. Then only the true objective of financial inclusion drive would be achieved.