FINANCIAL INCLUSION IN SIKKIM: INITIATIVES AND OUTREACH

A Thesis Submitted

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Degree of Doctor of Philosophy

By

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DECLARATION

I, **Sonam Topgay Bhutia,** hereby declare that the research work embodied in the thesis titled **"Financial Inclusion in Sikkim: Initiatives and Outreach"** submitted to Sikkim University for the award degree of Doctor of Philosophy, is my original work. The thesis has not been submitted for any other degree of this University or any other University.

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CERTIFICATE

This is to certify that Thesis titled **"Financial Inclusion in Sikkim: Initiatives and Outreach"** submitted to the Sikkim University for partial fulfillment of the degree of Doctor of Philosophy in the Department of Commerce, embodies the result of bonafide research work carried out by **Sonam Topgay Bhutia** under my guidance and supervision. No part of the thesis has been submitted for any other Degree, Diploma, Association, and fellowship.

All the assistance and help received during the course of investigation have been duly acknowledge by him.

I recommended this thesis to be placed before the examiners for evaluation.

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"Financial Inclusion in Sikkim: Initiatives and Outreach"

Submitted by Sonam ***Topgay Bhutia*** under the supervision of ***Dr. A. N Shankar, Associate Professor, Department of Commerce, School of Professional Studies, Sikkim University.***

24/06/2019

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Sonam Topgay Bhutia

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Abbreviations

ANOVA	Analysis of Variance
ATM	Automatic Teller Machine
BC	Business Correspondents
BOB	Bank of Baroda
CB	Commercial Banks
CB	Central Bank
CR	Critical Ratio
CRISIL	Credit Rating Information Services of India Limited
CSPs	Customer service points
CV	Coefficient of variation
EMDE	Emerging Market and Developing Economies
FI	Financial Inclusion
FII	Financial Inclusion Index
FLCCs	Financial Literacy and Credit Counseling Centres
GCC	GENERAL Credit Card
GDP	Gross Domestic Product
GOI	Government of India
HDI	Human Development Index
IMF	International Monetary Fund
IRDA	Insurance Regulatory Development Authority
KCC	Kisan Credit Cards
KYC	Know Your Customer
LIC	Life Insurance Corporation of India

MFI	Micro Finance Institutions
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
NABARD	National Bank for Agriculture and Rural Development
NBFC	A Non Banking Financial Company
OECD	Organization for Economic Co-operation and Development
PMJDY	Pradhan mantri jan dhan yojana
PNB	Punjab National Bank
RBI	Reserve Bank of India
RRB	Regional Rural Bank
SBI	State Bank of India
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India
SLBC	State Level Bankers' Committee
UIDAI	Unique Identification Authority of India
UNDP	United Nations Development Programme
UNO	United Nation Organisation
WB	World Bank

Chapter- 1

1.1 Overview of Financial Inclusion and Research Design

1.1.1 Introduction

Financial inclusion has been a buzzword for the economic policy makers at global, regional, national, and local levels. Approaches of the self-help groups (SHGs) and micro credits have been remarkable in the developing economies. Over, the years the vague description of financial inclusion have undergone transformation, to include in its ambit the services of insurance and the loans for agriculture and other economic activities for the deprived communities. The sporadic mention of achievements of the SHGs for women empowerment and the Micro-Credit for economic activities at village levels has taken thoughts in social dimensions. The studies are focused more on human development and social movements. Attempts by scholars in the area of Micro- finance have led some way and the overall result of their study shows gloomy picture of financial inclusion.

Due to improved technologies and its penetration into the village, level a crystal-clear view of the status of financial inclusion is yet to be known. The changing dimensions of description of financial inclusion make it a dynamic concept. Hence, notwithstanding the works by the earlier researchers, it is found novel to enquire into the present status of the financial inclusion with adequate description of the concept.

On reviewing the history of Indian banking industry, the past few decades witnessed tremendous growth in all aspects of banking. Bank nationalization, under which the focus shifted from ‘Class Banking’ to ‘Mass Banking’, led to major positive changes in financial profitability, viability, and competitiveness. Policymaking and regulating institutions in India have chartered guidelines and regulations for improving financial inclusion. But, macro-level data reveal that the uneven distribution of banking services. Vulnerable sections of the population are greatly affected by financial exclusion as they have to face on-affordability, non-accessibility, and non-availability of formal financial services. This forces the deprived people to avail high cost credit form informal sources. Individuals belonging to vulnerable sections also have to pay higher charges for basic financial services. They lose out interest benefits and face security threats by holding cash due to absence of bank accounts. Therefore, financial exclusion including prolonged deprival of banking services to a greater proportion of the population can lead to social exclusion through low investments.

Owing to the imperfections in financial markets, financial exclusion can result in slow growth process and persistent income inequality. In such a scenario, poor households and small businesses have to rely on their own earnings and savings to deal with their expenses. Thus, financial inclusion is essential to achieving accelerated and inclusive economic growth. Financial policies can help such individuals to overcome access barriers and result in growth and stability, reduction of poverty, equitable distribution of economic capacities and resources. Therefore, to achieve inclusive growth and develop effective programs, it is required to study the nature, and extent of financial inclusion.

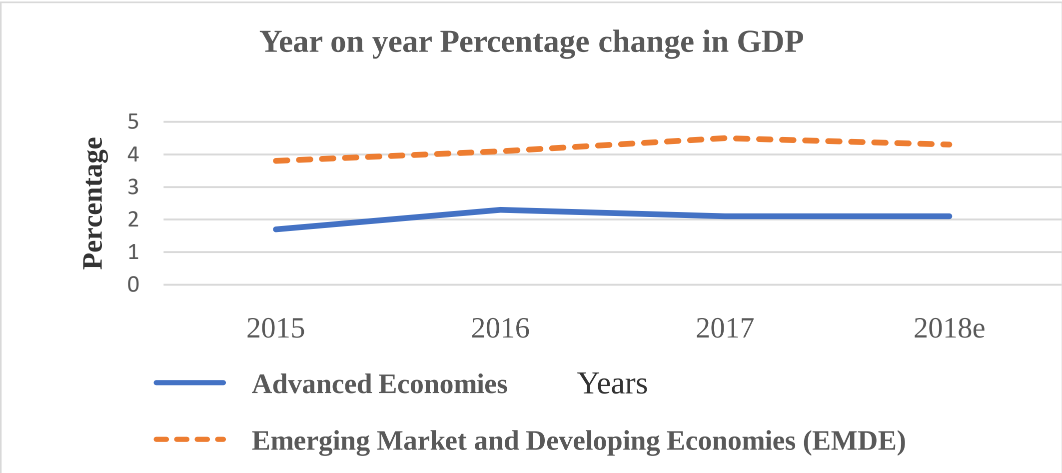
The global statistics on economic development reveals the significant contribution of developing economies to the global Gross Domestic Product (GDP) (United Nations Organization, 2014). However, even after the improvement in human development index parameters, such as health, nutrition, shelter, and education, social unrest prevails throughout the world. In the early 2000s, there existed financial exclusion attributing to dearth of services facilitating access and mobility of finance among masses across the globe. The United Nations Organization (UNO) expressed the missing link of Financial Inclusion measures while pondering on financial governance reforms (United Nations Organization, 2014, p. 87). The report unveils the need for robust remedial measures to ensure reach of financial services to the excluded masses. World over the crises of exclusion of the people from access to formal financial services have caused suppression of innovative ways to economic upheaval. The world forum conceived the remedial measure by identifying the means for including the population deprived of access to financial services. Each of the nations has unique characteristics of local, regional, domestic, and international economic activities. It is thus imperative that the nationwide measures for financial inclusion be prioritised.

The trend as of now reveals that the Governments in various countries have put efforts, whereby during the past five years (since 2014), 515 million people across the globe have opened bank accounts. Of recent in India, the financial inclusion measures taken by government have been successful accounting for 80% of working population being with bank accounts. This was possible by way of government measures for biometric identification for transferring benefits to the poorer sections in the country. Rural population, women, and senior citizens comprise the majority (World Bank, 2018).

Among the global economic development parameters, GDP is popularly used as the key to address various issues. Agile financial systems adds to the pace of economic growth, and financial systems with inclusive approach meets the economic needs at the grassroots-level (Aslidemi R, and Kappler L 2013). However , the fulcrum of the economic development have moved from mere capital formation and employment generation to the inclusive growth of all the individuals in holistic perspective , financial inclusion being one of the important parameters after health and social development. In studies cited on financial inclusion, it is observed that the process of financial inclusion is a carrier of justice for empowerment of women in rural peripheries. It boosts the social status of the deprived communities by enabling them to avail, and use the benefits transferred by the government and innovatively work out the plans for future economic activities. Savings and liquidity remain safe in the banks than the poorly guarded homes in rural areas.

Due to inadequate infrastructure and high population density, the developing economies account for greater share of financial exclusion. Despite of the fact their contribution and growth to global economy is greater than that of the developed economies. Global statistics on recent economic growth conveys that the year on year percentage of GDP in developing and emerging economies have been greater than that of the advanced economies.

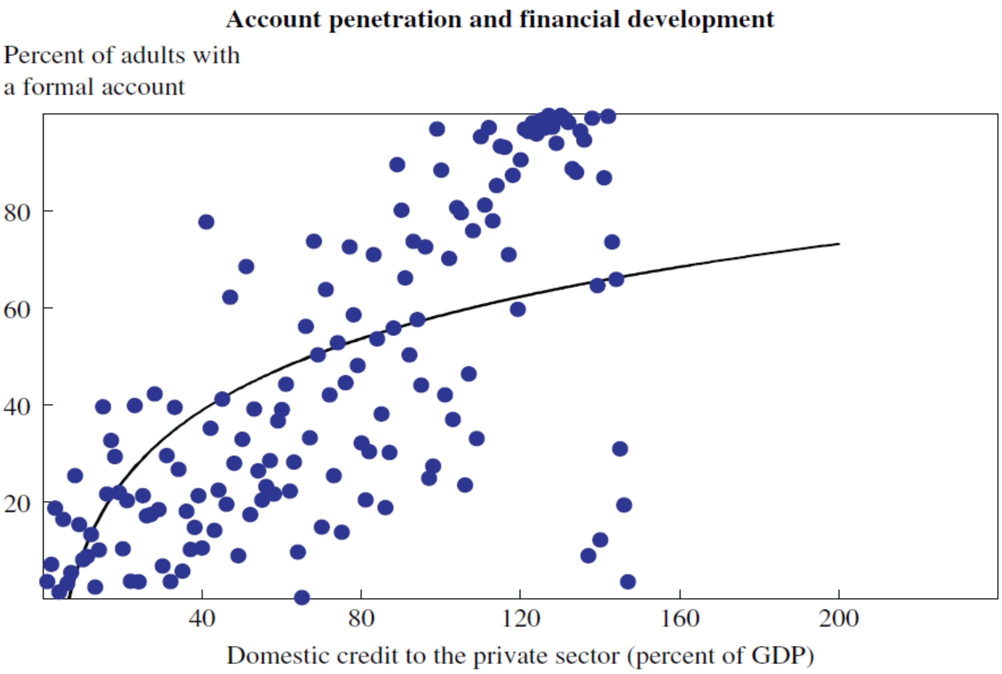
Figure 1. 1



Source: Compiled from World Bank 2018

It is hence suggestive that developing economies being the faster growing engines with greater share in global economy, their attempts for inclusive growth from within the domestic realms would bring about miraculous trends in holistic development. The association between financial inclusion and the GDP have been positive (Ref: - Fig 1.2)

Figure 1. 2



Source: Compiled from RBI and World Bank 2018

India ranks 9th out of 21 countries as per the Brookings' report for initiating financial inclusion efforts. As per CRISIL records for the year 2013, Sikkim is ranked above average and fares well above other North-Eastern States. Global agencies have agreed that financial inclusion should be assessed primarily with the help of formal banking services. In addition, many more parameters, beyond the mere secondary source of information, are yet to be worked out.

The theoretical aspect focuses on ways to effectively execute the financial inclusion measures across the regions. These include case studies on successful means to attain higher financial inclusion across various geo-political regions and its association with economic growth parameters. Researchers have broadly worked on either development of the measures of financial inclusion or its reach to the needy masses.

Table 1. 1 Research Works on Financial Inclusion Measures and Status

Financial Inclusion Measures	**Financial Inclusion Status**
Sarma (2007)	Former United Nation Secretary General Kofi Annan (2003)
Honohan (2007)	RBI (2006)
Sarma (2008)	Beck & De la Torre (2006)
Honohan (2008)	Pal and Sura(2006)
K. Ravichandran and Alkhathlan (2009)	Report of the Committee for Financial Inclusion (2008)
Sarma (2010)	Cole, et al. (2009)
Chakravarty and Pal (2010)	Manoharan and Krishna VeniMuthiah (2010)
Rashmi Umesh Arora (2010)	Kuppan S (2012)
Sarma and Pais (2011)	Shroff and Prasadarao (2012)
Sarma (2012)	S Ananth, T Sabri Oncu (2013)
K.C. Chakrabarty (2012)	Thapar (2013)
The NachiketMor Committee (2013)	R Viswanathan March (2014)
S. Rajawswaminathan (2013)	Indira Iyer (2015)

1.1.2 Studies Based on Measures

Sarma (2008) suggested different indicators for determining the extent of financial inclusion. The Financial Inclusion Index (FII), a multidimensional measure, is based on three dimensions of a financial system for overall development in welfare economy: availability of banking services (BS), banking penetration (BP), and usage of banking system (BU). However, after assessing the data on these dimensions for 55 countries, it is imperative to determine whether only these three factors are responsible for financial inclusion?

Sarma and Pais (2011) used the "distance from frontier approach" to determine the index. For this, they first calculated a sub-index for each indicator and then normalized the sub-indices between 0 and 1. Subsequently, these sub-indices are assigned weightage based on their importance, and the simple weighted average is the financial inclusion index (FII). This measure depends on the banks' initiatives for robust financial inclusion.

Honohan (2008) presented four central functions of finance: 1) allocating capital;2)mobilizing savings; 3) transforming risk by pooling and repackaging it; and 4) monitoring the use of credit funds by entrepreneurs. Legal, regulatory, and informational structures that improve the quality of financial systems should be used to address these central functions. This is because these functions cannot be determined by the scale or the breadth of the system.

The Nachiket Mor Committee (2013) recommended the use of two specific district-level penetration metrics (i.e., credit-GDP and life cover-GDP ratios)for monitoring meaningful financial inclusion. This suggestion is slightly different from the financial inclusion formula using number of accounts and should be considered while determining financial inclusion.

Ravichandran and Alkhathlan (2009) studied the factors influencing access to financial services by the weaker sections of a society in India. From the demand side, the influencing factors are lack of alertness, social elimination, low incomes and property, and illiteracy. From the supply side, the influencing factors are distance from bank branch, awkward banking process, branch timings, over prerequisite documents for introducing bank accounts, poor communication of verbal contents, inadequate schemes, attitude of bankers and transaction costs being high.

Sharma (2010) differentiated the five factors responsible for the lack of financial inclusion (exclusion). The five factors are(1) Access exclusion owing to geography and risk management of financial system, (2) Price exclusion owing to non-affordability of financial services, (3) Condition exclusion because of conditions inappropriate for some people, (4) Marketing exclusion owing to non-attractiveness of conducting business with certain groups within a society (lending risk), and (5) Self exclusion due to fear of refusal because of psychological barriers.

1.1.3 Studies Based on Status

Former United Nation Secretary General Kofi Annan (2003) opined that many poor individuals globally lack access to sustainable financial services such as saving and credit or insurance. He also observed that it is difficult to address the factors constraining people from fully participating in the financial sector.

Pal and Sura (2006) observed that Regional Rural Banks (RRBs), which are banks for poor people, have poor performance in India due to the poor credit-deposit ratio. However, the performance of RRBs can be improved if the number of their branches are increased at the grassroots level and the credit deposit ratio of the bank is increased. This can result in increased availability of banking services to the needy rural people and can increase the relevance of such banks in rural India.

Cole et al. (2009) proposed a financial literacy program for untrained and illiterate households, but it does not influence the likeliness of opening a bank savings account. However, small grant expenses are more than twice the cost-effective of that of the financial literacy training and also positively affect the likelihood of opening a bank savings account.

Manoharan and Krishna Veni Muthiah (2010) observed that the majority of the rural population has restricted access to affordable financial services such as insurance services, loan remittance, and savings. This limited access checks the growth impetus in these sectors. They interviewed the family heads of numerous households in ten villages of Vadipatti Panchayat of Madurai District, Tamil Nadu (India). They found that most of these people did not find formal financial services convenient owing to difficulty in understanding language, different conditions, and numerous documents related to financial services.

Shroff and Prasada Rao (2012) collected data on the financial inclusion initiatives of the Reserve Bank of India, NABARD, Government of India, etc. through questionnaires, face-to-face interviews, etc. They observed that the studied financial institutions should redesign their business strategies such that special plans can be incorporated to promote financial inclusion of low-income groups. This can serve both as a corporate social responsibility and as a business opportunity.

Kuppan S (2012) observed that the lack of regular or considerable income is the main reason for financial exclusion. They found that most of the lower-income people do not qualify for a credit. In addition, the lack of conveniently available financial service deterred such people from accessing financial services. Moreover, most of the excluded consumers lack awareness regarding bank services that can are appropriate for them. These people also find it easy to borrow money from unorganized moneylender than getting opting loan from a bank.

S Ananth and T Sabri Oncu (2013) studied the institutional challenges to financial inclusion in Andhra Pradesh. They observed that formal financial institutions were unable to meet the specific requirements of the poor rural people and that this gap was filled by informal service providers. They recommended that the banking sector should focus of developing plans and packages to attract such people and expand their inclusion. They concluded that financial inclusion can be successful by (a) incorporating measures to expand the scope of formal banking sector; (b) overcoming information asymmetries; (c) amplifying financial literacy through state programs (as public/private banks cannot bear the high costs alone); (d) mandating appropriate agencies to lead efforts that expand financial inclusion; and (e) creating a relevant suite of financial products that meet the needs of the financially excluded.

Thapar (2013) studied the financial inclusion programs incorporated in selected bank branches within the districts of Ludhiana in Punjab (India). They concluded that there is still a need for much efforts to advance the progress of financial inclusion despite the banks complying with RBI norms.

R Viswanathan (2014) observed that wholesale banks and creation of money market instruments for warehouse receipts could hamper the progress of financial inclusion.

Indira Iyer (2015) argued that the access and use of financial services should be differentiated for better understanding of financial inclusion. In addition, the poor people had limited financial capacity to save and invest, barely used bank accounts, and showed difficultly in trusting the current model of using business correspondents. This made it difficult to anticipate how the opening of bank accounts will inculcate the habit of saving among such people. The study recommended that the government should rethink the measures for making financial services more inclusive. The above literature states that financial inclusion should be incorporated to uplift the disadvantaged and poor people by ensuring customized financial products and services. The literature also indicates the concept of inclusive growth including the deprived and marginalized sections. The present study aims to study the changes that occurred in India by considering appropriate variables for tests. The Government of India have put certain efforts since 1985 which were initiated by the then Prime Minister, and then followed up during post liberalization by the Khan Commission in 2004 and the Rangarajan Committee in 2008.However, achievements through formal mechanisms and policy are yet to be precisely measured. The findings of World Bank (2012) revealed that around one-third Indian adults had formal bank accounts and 8 percent are borrowers from formal financial institutions. As recent steps to realize inclusive growth targets, the government has introduced public distribution system (PDS), ensured employment in rural areas through the National Rural Employment Guarantee Scheme (NREGS), implemented AADHAR to unify the population under a unique identification number and implemented the Direct Benefit Transfer (DBT) Scheme.

Yet the measures discussed in literature were confined to the analyses of banking initiatives. There are other factors responsible for financial inclusion such as insurance penetration that secures future financial commitments, medium for financial mobility in terms of channelizing funds to and from the remote corners, that are needed to be addressed.

1.2 Organisation of the Thesis

1.2.1 Introduction

Research involves gathering, recording, and critically analyzing relevant facts to understand the logic behind the problems. It is a scientific and systematic way of searching pertinent information to solve the research problem. It involves manipulation of symbols or concepts or symbols to correct, extend, and verify knowledge for construction of a theory or in practice of an art (Kothari, 2005). It is directed towards the development of an organized body of knowledge and discovery of new insights into unsolved problems.

Taking lead from the literature and the policies of the government, this work is designed to incorporate the three approaches to research. The positive approach is to know the cause effect relationship between the available infrastructure, and the access and use of financial services by the people. By way of primary data collection, (Ref-Table 1.2 this study has identified the causes of financial exclusion and financial inclusion in Sikkim. This study has identified the causes of financial exclusion and financial inclusion in Sikkim. The realist approach is applied to know the existing level of financial inclusion by way of account penetration, and financial services penetration among the people in the state of Sikkim. The impact of initiatives taken by the government and financial institutions is surveyed at the grass root level with a normative approach, a comparison is made in the study to know the differences if any. However, during the process of the work demonetization and the compulsory no-frill accounts have changed the scenario of financial inclusion thus the differences are found to be insignificant. The compulsion of the government has ensured thin margin of financially excluded as per some of the financial inclusion the parameters.

Table 1. 2 Sample size of 485 household respondents from the Sikkim

Districts	Education Qualification	Family Size	Age Group: Below43	Age Group: 43-50	Age Group: Above 50	Family Size wise total
South (126 Households)	Primary	Small	5	6	2	13
		Medium	7	5	9	21
		Large	5	3	4	12
		Age Wise total	17	14	15	**46**
	High-HSS	Small	11	8	2	21
		Medium	14	9	9	32
		Large	5	5	11	21
		Age Wise total	30	22	22	**74**
	Above HSS	Small	1	1	0	2
		Medium	1	1	1	3
		Large	1	0	0	1
		Age Wise total	3	2	1	**6**
West (125 Households)	Primary	Small	4	7	7	18
		Medium	2	9	6	17
		Large	2	5	4	11
		Age Wise total	8	21	17	**46**
	High-HSS	Small	7	8	11	26
		Medium	6	10	8	24
		Large	2	2	9	13
		Age Wise total	15	20	28	**63**
	Above HSS	Small	1	1	1	3
		Medium	4	2	1	7
		Large	3	0	3	6
		Age Wise total	8	3	5	**16**

Districts	Education Qualification	Family Size	Age Group: Below43	Age Group: 43-50	Age Group: Above 50	Family Size -wise total
North Sikkim (100 Households)	Primary	Small	1	4	5	10
		Medium	7	12	3	22
		Large	2	1	4	7
		Age-Wise total	10	17	12	**39**
	High-HSS	Small	4	8	10	22
		Medium	10	11	4	25
		Large	3	1	2	6
		Age-Wise total	17	20	16	**53**
	Above HSS	Small	2	3	1	6
		Medium	2	0	0	2
		Age-Wise total	4	3	1	**8**
East (134 House Holds)	Primary	Small	4	6	2	12
		Medium	5	5	5	15
		Large	4	0	3	7
		Age-Wise total	13	11	10	**34**
	High-HSS	Small	13	15	6	34
		Medium	17	9	9	35
		Large	1	2	3	6
		Age-Wise total	31	26	18	**75**
	Above HSS	Small	7	3	2	12
		Medium	8	3	0	11
		Large	2	0	0	2
		Age-Wise total	17	6	2	**25**

1.2.2 Scope of the thesis

This descriptive study examines the effect of financial inclusion in Sikkim to highlight the initiatives and the outreach. This study is based on a household survey, where the sample from four districts of the state of Sikkim are considered, i.e., North, East, South and West districts. Primary data is collected by way of administering questionnaires to the households belonging to all the four districts. The proposed provides useful insights to researchers, financial analysts, Reserve Bank of India (RBI) and commercial bank officials and will assist, in assessing the status and causes of financial inclusion.

The construct of Index on Financial inclusion is limited to include insurance services along with banking related parameters in the measurement variables. However, there is a scope for future researchers to look into the green financial inclusion and sustainable financial inclusion.

The scope is confined to the survey on overall financial inclusion by way of institutional efforts prevailing during the period of research commencing from the year 2015 in Sikkim. The initiatives by the banks for financial inclusion as directed by the RBI has studied and verified from the households in all the four districts. The data so collected is synthesized to know the accessibility, utilization of the financial services, affordability and availability of financial products for the households in four districts of Sikkim.

1.2.3 Research Problem

The parameters of concept underpinning financial inclusion have been changing ever since its evolution at global forum. At the inception around the year 2000, an operational bank account holder was counted as the financially included person. However, the seriousness of the problem with restrictions of the financial regulators in opening of a bank account by every individual was only understood when it is realized in 2004 that the deprival of bank account to the individuals is leading to financial exclusion.

The negative correlation between the financial exclusion and economic development parameters have led the world forum to strategize the measures of financial inclusion. With the setting up of Alliance for Financial Inclusion (AFI) the focused group from every country have pondered upon the issues of financial inclusion that includes; illiteracy, social factors such as gender, and identity crises of the poor immigrants. Moreover, in the year 2014 a changed dimension was discussed to include insurance as the measure of financial inclusion. With the development of technology, digital financial inclusion is also pondered upon. In Indian context the declaration of Pradhan Mantri Jan Dhan Yojana (PMJDY) have achieved the first step of financial inclusion. Further the questions were on the digital financial inclusion are raised in the AFI and its success in the African countries is noted with pride. Similarly, the concept of financial inclusion is discussed with an environmental perspective as green financial inclusion to avoid carbon footprints in the process of access and use of financial services. The much inclusive concept of financial inclusion is Sustainable financial inclusion that includes the social and economic well-being in tandem with environmental well-being (Alliance for Financial Inclusion, 2018).

The research problem for a sample area is whether there is an understanding of the concept among the deprived communities that financial inclusion could solve the major problem of deprivation from formal financial services for them. Notwithstanding the medium of financial inclusion, this study focused on the overall generic concept of financial inclusion in essence. This thesis attempts to develop a financial inclusion index to include the dimensions of insurance as a financial service along with the existing parameters as mentioned in CRISIL inclusive. Such an inclusive financial inclusion index will take into account an additional dimension of financial inclusion. However, there is a way ahead for other researchers in the field of Green Financial Inclusion, Sustainable financial inclusion, and the Digital financial inclusion.

The question arises on the accessibility and use of bank accounts opened for the deprived communities via PMJDY and other such policies. What is the frequency of the use? Are all the people in the ambit of working population included? Are the people aware about the insurance products for their routine business and self? If the financial services are affordable to the people. Whether the banks that are operating in the region are facilitating the percolation of policies to the remote rural people that may be deprived due to topographical constraints? The above questions are being addressed in the thesis by way of second and third objective on uses and affordability of financial services.

A study of the economic development agenda of different developing nations reveals that policymakers worldwide are concerned with poverty alleviation. In this regard, it is necessary to financially include the poor and marginalized class to reduce inequalities and equalize opportunities. Hence, policies for financial aspects evolved to ensure balanced growth and agile access to services of financial institutions are necessary. It is imperative to identify empirical evidence that links reach of financial services for development parameters. In reality, the poor, marginalized and weaker sections have limited access to finance.

Macro-level data of the Indian economy reveals that such individuals are financially excluded with no access or non-uniform access to the various financial services provided by financial institutions. Thus, there is need to develop a good mechanism that can operationalize financial inclusion. It is noted that there is a dearth in literature on financial inclusion in Indian context. This problem can be tackled effectively by increasing the number of research work on an access to financial services, its impact on households and effectiveness of policy interventions. The present study aims to analyze the extent and nature of financial inclusion and the impact of affordability, accessibility, and utilization of services by financial institutions across the households' demographic fabric in Sikkim.

1.2.4 Objectives of the thesis

During the past decade, financial inclusion has gained increasing importance as a national policy initiative for balanced regional and area development and has been incorporated in the policy guidelines of RBI to banking institutions and others in the field of development. In order to bridge the gap as identified in the literature regarding the measures of financial inclusion and its application for assessment of financial inclusion in Sikkim, the following objectives are found essential to be addressed:

1. To construct a Financial Inclusion Index.
2. To measure the effectiveness of Financial Inclusion initiatives taken by Banks and other financial institutions operating in India.
3. To determine the level of Financial Service accessibility in Sikkim.
4. To find out the level of Financial Service affordability in Sikkim.
5. To assess the level of Financial Service Utilization in Sikkim**.**

As there is a plethora of literature on the financial inclusion but most of them purely discuss on the status and the extant of use of financial services. The measurement of the penetration of banking services alongside the insurance services is found in paucity. It is thus, felt essential to develop Financial Inclusion Index. Researchers usually apply the institutional parameters to identify the financial inclusion. The first objective is thus focused on the construct of the financial inclusion index.

The AFI and World Bank have been sensitizing the governments to include measures of financial inclusion for overall economic development. In India RBI, have directions for the banks and other financial institutions to initiate the implementation of the policy for financial inclusion. The second objective is thus based on the study of the major policies that the banks have evolved and initiatives that are taken by them for the financial inclusion in Sikkim. A description to this effect is made in the section dedicated for the initiatives on financial inclusion.

1.2.5 Hypotheses Formulation

Hypotheses are formulated to know the effect of demographic characteristics on the parameters of accessibility, affordability, and utilization for financial services (Ref- Chapters IV, V, VI). The proposed study aims to examine and verify certain hypotheses formulated based on review of literature. The definition of financial inclusion by (Sharma 2008) underlines the numerous dimensions of financial inclusion (accessibility, availability and usage) that assists in building an inclusive financial system (Commonwealth Secretariat & La Francophonie, 2011), (Arputhamani & Prasannakumar, 2011) and (Rao & Bhatnagar, 2012). Alliance for financial inclusion (2011) presented a set of guidelines on the measurement of financial inclusion. These guidelines include a robust catalog of indicators encompassing the primary dimensions of access to a range of formal financial services and usage (Ramji, 2009). Many researchers have identified bank penetration, availability of bank services and usage of financial system as the underpinning dimensions of an financial system with inclusive attribute (Chattopadhyay, 2011), (Kuri & Laha, 2011), (Yorulmaz, 2013) (Gupta & Singh, 2013), (Padmanbhan & Sumam 2014), (Chibango, 2014), (Malik & Yadav 2014) and (Banerjee & Francis, 2014). Further, Gupta (2014) identified three dimensions, viz., banking penetration to measure availability, accessibility, and usage of banking services for evaluating the extent of financial inclusion. Following are the hypotheses for the study:

H_{01}: There is no association in the level of availability of financial services among the various demographic characteristics.

H_{02}: There is no association in the level of affordability of financial services among the various demographic characteristics.

H_{03}: There is no association in the level of utilization of financial services among the various demographic attributes.

Barriers in terms of geographical, cultural, trust issues or inadequate products and services for a specific environment limit the participation by certain sections of the society in accessing the existing financial services (Reyes et al., 2010). Poor education or illiteracy represents a significant barrier to the proper accessing and usage of formal financial services (Ellis et al., 2010). Qualifying requirements such as availability of collateral or guarantor, minimum account balance, fees, proper documentation, and others are the main barriers that prevent poor people from utilizing financial services (Ellis et al., 2010). Agrawal (2008) underpinned low income, ignorance, low levels of financial literacy, cultural and psychological barriers such as perceived/actual racism, language, suspicion, or fear of financial institutions that result in financial exclusion. Most of the studies made previously are on the accessibility and implication of financial inclusion concentrated on the supply aspect.

The current study attempts to investigate both the supply and demand sides of financial inclusion.

i. Since the present study is specific to a state, the findings help in determining the position and problems of the state with respect to the variables under consideration. Moreover, the macro-level findings of the study with regards to financial inclusion highlight its impact on the households' social and economic status in Sikkim.

ii. At the national level, studies have focused on the disparity in financial inclusion and the impact of affordability, availability, and usages of formal financial services across the states. However, it should be noted that disparities in financial inclusion could also be observed across districts with the states. Thus, this study aims to investigate such disparities across districts and the implications of availing formal financial services.

iii. Lack of studies on the implementation of financial inclusion and its effectiveness in the state of Sikkim necessitates the need for research data with respect to financial inclusion in the state.

1.2.6 Limitations of the Study:

- The present study is limited in scope to portray a broad view of financial inclusion. The construct of financial inclusion in this thesis do not include the perspective of digital financial inclusion, Green Financial inclusion and sustainable financial inclusion.
- The scope of the objective on construct of financial inclusion index is confined to inclusion of the insurance penetration as a measure. There are many other parameters that can be included to compute a holistic financial inclusion index.

- The objectives on availability, affordability, and utilization of financial inclusion presented here broadly captures statewide measures for financial inclusion. Thus, there is a need to further synthesis and get district wide and village wide information such that policies could be designed to include the deprived communities.
- Sample size being the limitation of the thesis to generalize the findings for entire Sikkim. However the leverages if allowed in time and the available resources survey could have ensured the greater sample size for in depth study of the region.

Way Ahead

- As the limitations are highlighted, the scope for further research in the field is envisioned in the fields of Green Financial inclusion, Digital Financial inclusion and the Sustainable Financial inclusion.
- The Financial Inclusion index can be further modified to capture the effect of distance from the nearest Financial Institution on the financial services percolation to the households.
- The objectives on availability, accessibility, and utilization of financial services needs to be further synthesized to describe the perspectives of the respondent households on the current scenario of the financial services. This could also highlight on the behavioral aspect of the household respondents with regard to the financial services and financial inclusion measures.
- Last but not the least the sample size of 384 from each of the villages could have improved the inference of the research. In future, the researchers can do justice with generalization if the sample size is increased, such that a policy

document may be evolved for the financial institutions and government of the state.

- Comparison of financial inclusion of Sikkim with the other states in the India's Northeast could provide a greater idea about the status and the policies and their implementation could be well crosschecked for the differences if any.

Chapter- 2

2.1 Financial Inclusion Index

2.1.1 Introduction

Policies and initiatives taken by the institutions for inclusive growth and overall economic upheaval once executed, needs constant monitoring and evaluation. This enables the policymakers and executioners' machinery to lead in the direction of prosperity with adequate measures to correct the performance. Financial inclusion is closely related to the demography and the reach of the policies facilitating financial inclusion to the deprived people takes time from the date of implementation. Hence, précised measurement for the overall financial inclusion could be evolved only by ay of institutional approach where by the formal access to the financial services can be quantified by way of counting the number of bank accounts opened for the people from certain place. Mere availability of number of accounts do not answer the question regarding holistic financial inclusion. The convenience of the people by way of the frequency with which the bank accounts are operated needs to be captured. Data regarding these aspects are sensitive for every individual to share, banks and financial institutions remain the only source to present the aggregates from time to time. The quantitative information shared by the banks with policymakers unravels the status of the measures taken for financial inclusion.

The précised expression of the longitudinal data based on time is usually measured in terms of relative quantitative measures. Specifically index could capture the information needs of the policymakers for knowing the penetration of financial services from year to year or annually. The CRISIL inclusive is one such index that serves the purpose of measurement of financial inclusion in India. However, it has incorporated in its model only the banking related parameters such as accounts in opened, banks per 1000 of population; population availing services, the parameters such as the insurance penetration in the region among the excluded is not a part of the CRISIL. The model evolved by CRISIL is adopted from that of the World Bank FINDEX. As the time changes with introduction of advanced technologies and methods of calculating FINDEX and the INCLUSIVEX are also changing to adapt to the advancements and pin point the actual status of the policy achievements. It is thus felt essential to construct an index that could provide measurement of any remedial policy measures. Financial inclusion needs to be measured by taking into considerations certain parameters.

The epistemological origin of the word index can be traced from the Latin word index meant ‘forefinger, informer, sign’, its second part is termed as dnicare ‘to make known’, also the source of indicate (early 17th century) and related words. The earliest uses in English refer to the finger that we would now usually call the index finger. Because this finger is used for pointing, index came to mean ‘a pointer’, either a physical one or some piece of knowledge that points to a fact or conclusion. And because a list of topics in a book points to their location in the text, publishers and scholars gave such a list the name index in the late 16th century.

For economists and researchers in other fields the word index denotes a composite number that expresses phenomena over a period. Several academicians have defined the term as follows:-

Interpreting relative measures like index are considered much easier than other measures. The indices are capable of setting benchmarks for performance (Saltelli, 2007).

Index generally refers to a quantitative measure obtained from various facts observed to understand relative position (e.g. of a country) in a particular field of interest. An indicator measured at regular intervals can indicate the course of change across separate units and through time. Indicators can be used to identify trends and draw attention to specific issues in the context of policy analysis (see Brand et al., 2007 on alcohol control policies in OECD countries). These can be further used to prioritize policies in both monitoring and benchmarking performance. A composite indicator refers to the single index formed by combining different individual indicators based on an underlying model. It used to measure multidimensional concepts, such as industrialization, competitiveness, single market integration, sustainability, knowledge-based society, etc., which generally cannot be evaluated by a single indicator.

Composite indicators are like computational models that depend on the craftsmanship of the modeler. A composite measure is considered to be apt subject to its construct for the intended purpose and acceptance (Rosen, 1991) of peer.

The aggregators believe that composite indicators are meaningful and can capture reality and that emphasizing the bottom line can garner media interest and consequently the attention of policy makers. In contrast, the non-aggregators believe that a composite index is not required if an appropriate set of indicators has been developed. This is because of the arbitrary weighting process used for combining the variables (Sharpe, 2004).

2.1.2 Financial Inclusion Index

Walter Bagehot (1870), a classical economist, was the first to state that the financial state of an economy is essential for the growth of the economy. He also stated that loan able funds encourage economic activity when they are allocated among investors who then adopt new technology. This resulted in increased economic process and growth of economy. Gold Smith (1975) developed the index of financial inclusion and termed it Financial Interrelation Ratio. He described the penetration of the financial services and spreading of services rendered by the financial system in terms of number of customers, bank branches, etc., which later gained a lot of significance. Later, geographers coined the term 'financial exclusion' in 1993, which described that the closing the bank branches confined the reach of bank services to the common people (Leyshon and Thrift, 1995). In Indian context, the term 'financial inclusion' was used instead of financial exclusion, it was conceptualized during the cooperative movement. However, Y V. Reddy was the first to use 'financial inclusion' in 2005. Soon after, the C. Rangarajan committee (2008) was formed to examine the different forms of financial exclusion, identify the barriers affecting access to banking services, and recommend steps for financial inclusion. In 11th five-year plan (2007-12), the government addressed the need for financial inclusion to amplify economic growth so as to reduce the poverty level of the country by generating rural employment.

2.2 Review of Literature

Financial inclusion implies the evaluation of the extent of availability, accessibility, and utilization of financial services such as saving, insurance, credit, remittance facilities, etc. However, there is limited literature on the measurement aspect of financial inclusion. India has diversified society and economy and society, and hence, policy makers and researchers should give ample importance to the measurement of financial inclusion. Financial inclusion has several dimensions and so, its measurement should be multi-dimensional. A few scholars have studied and measured some aspects of financial inclusion as shown below.

Anjali Kumar (2005) observed that the measurement of financial inclusion has gradually gained interest in recent years, but there is lack of globally consistent datasets on how it has changed over the past decade. Evidence from countries like Africa, Brazil, India, Kenya, and South Africa suggests that financial inclusion has undergone a positive change in the past few years..

Beck et al. (2007) used cross-country data and individual parameters to evaluate the outreach of the financial sector and its determinants. However, the use of individual parameters, such as number of bank branches (per million population), quantity in number of ATMs per million population, quantity in number of bank accounts per 1000 population, quantum of credit and deposits by and in the bank, etc. may provide surrogate information on the financial system's penetration to common people.

Honohan (2007) attempted to estimate the number of households with access to formal financial intermediaries and compared them to inequality and poverty using the coefficient. For the calculation, he used the ratio of microfinance accounts and bank accounts to the total population, household survey-based access and the average deposit size and the per capita GDP for more than 160 countries.

Mandira Sarma (2008) developed a three-dimensional FII by incorporating information on availability, accessibility, and usage of banking services. IFI captures the variables along the scale of 0 and 1. Levels of financial inclusion, are known by way of the number derived of the ratio if the number is near to one than the financial inclusion is noted to be better and a lower number nearing zero will capture the financial inclusion as poor. Data on all dimensions for 55 countries and only two dimensions (usage and availability) for 100 countries were used to compute two sets of FII. It is noted that India ranked 50th among 100 countries with a low index of 0.170 and 31st among 55 countries with a value of 0.155. The author observed that the usage of the banking system (in terms of deposit and credit volume) in India was moderately high despite the low density of bank branches. It was also observed that most of the studies on financial inclusion used sect oral indicators to examine the extent of financial inclusion or financial exclusion. Some of these sect oral indicators are the number of bank branches shared by the population, quantity of ATMs in the region shared by the population, bank accounts operative by the adult population, amount of credit, and deposits, etc. These measures excluded the insurance sector penetration to the common population.

World Bank (2008) for 51 countries a composite measure of financial inclusion was presented to know the percentage of adult population that has an account with a financial intermediary.

Mehrotra *et al.* (2009) developed an index for financial inclusion based on aggregate indicators such as number of offices in rural areas, volume of rural deposit and credit; number of rural deposit accounts, etc. These banking data were collected for 16 states of India.

World Bank (2009) studied the association between access to banking services and several other factors such as transactions required by banks or offered at banks and regulations adopted by country authorities. The banking services were measured in terms of the number of bank accounts for every thousand adults in each of the 45 countries.

Beck *et al.* (2009) observed that a large amount of data is available on various aspects of financial system, but there are limited systematic indicators of inclusiveness of financial sector**.**

Chandan Kumar and Srijith Misra (2010) aimed to fill the above gap by assessing both demand and supply side information for presenting a comprehensive image of financial inclusion in India. The supply side information include banking outreach indicators such as number of bank branches, number of deposit and credit accounts, credit utilized, average deposit and credit amounts per account, etc. The demand side information include access to financial services at the household level in terms of the number of households having saving, credit and insurance facilities. The household level data were also used to analyze the role played by the informal sector vis-à-vis formal sector, particularly with respect to credit. Different composite FIIs based on both data sets were estimated for the year 2002-2003 (since the last household-level data were available for 2002-2003) for India. The study also revealed that Chandigarh, Delhi, Goa, Karnataka, Kerala, Maharashtra, and Pondicherry have shown good performance in outreach of banking services and economic development (i.e., per capita income). This indicates that better developed states have better banking services.

There is huge difference between rural and urban areas in terms of outreach of financial services; urban areas showed better performance in most of the aspects of financial services. Compared to other states, Pondicherry showed better performance in rural areas, whereas Kerala showed better performance in urban areas. Andaman, Delhi, Goa, Himachal Pradesh, Kerala, Maharashtra, Punjab and Tamil Nadu showed higher financial access in urban areas than in rural areas. The supply side analysis in the study revealed 0.674 deposit accounts per person. This was confirmed by the demand side analysis that indicated that more than 55 percent of households have access to saving facility. This indicates that Kerala has appropriately distributed services or that there exists other formal institutions for saving such as co-operatives, post-offices, microfinance institutions, self-help groups, etc. With respect to credit accounts, the supply side has less penetration than the demand side, indicating the existence of formal institutions other than the banks. In the case of rural sector in Kerala, the supply side indicates that it has the lowest rank in terms of availability of bank branches and number of credit and deposit account. However, the demand side indicates that rural areas of Kerala have high ranking. This may be because of the existence of other formal financial sources. Interestingly, it was observed that the financial services in Kerala were highly availed from informal sources. The existence of informal financial sector is significant, particularly in rural areas. Moreover, the examination of other states also revealed that most of the major states of India were highly dependent on informal sources for credit.

Nageswara Rao (2010) argued that various banks are yet to implement various measures related to financial inclusion that were initiated by the Central Government and RBI. He surveyed 26 bank officials from across to country to understand the ground-level operation of financial inclusion. He also suggested an appropriate structure suitable for implementing financial inclusion. The study found that most of the bankers were conceptually clear about financial inclusion and recommended that banks should periodically provide trainings on financial inclusion to their staff to create more awareness about the concept.

Satya, R. and Rupayan Pal (2010) attempted to develop an index for financial inclusion based on six attributes: (a) Penetration in the Demography, i.e., bank branches shared by every 10 lakh people, (b) Penetration in terms of geography, i.e., the branches of bank for every 1000 square-kilometer of land, (c) Deposit accounts for every 1000 persons (people), (d) Credit accounts for every 1000 individual persons, (e) Ratio of deposit to income, and (f) and the proportion of overall credit to income. They studied the data on these attributes for 24 states for the years 1991, 2001 and 2007. The authors found that the degree of financial inclusion in India declined from 1991 to 2001. However, the degree of financial inclusion increased during 2001-2007.

Chattopadhay (2011) constructed the FII for all districts of West Bengal and for most of the major states in India.

Karmakar, et al (2011) developed the FII for rural areas of the major 20 states in India. In their study, the indicators of financial inclusion were number of rural outlets, per outlet deposit amount, per outlet credit amount, number of accounts per outlet, and per account deposit amount.

For assessing performance of nationalized banks in public sector, the Finance Minister of India introduced financial inclusion index underpinning two parameters, the quantity in terms of new no-frill accounts created/opened and the additional branches in terms of numbers (Government of India, 2011)covering the population and area.

Ramapal and Rupayanpal (2012) found that an increased number of households having access to formal financial services in a particular state did not improve or deteriorate financial inclusion across different income groups in that state.

2.2.1 Existing Literature on Index of Financial Inclusion

Literature shows that different approaches, including the use of different dimensions of financial inclusion, econometric estimation, etc., have been proposed with respect to financial. Beck et al. (2006)[16]was the first to measure the outreach of financial sector across countries. They developed new indicators (access, affordability and eligibility)for assessing the outreach of the banking sector in terms of deposits, loan, and payments.

Sarma, M. and **Paise, J. (2008)** examined the association between financial inclusion and human development. Based on the data on banking services in 49 countries, they concluded that financial inclusion and human development were positively related. So, this indicates that financial inclusion can be used as a means to reduce poverty levels and improve the standard of living. They also stated that increased income could result in increased level of financial inclusion.

Mehrotra, N. *et al.* (2009) developed an FII for measuring the degree of financial inclusion and its effect on economic growth. They believed that better access to banking services resulted in more usage of savings accounts in formal financial institutions. This then helped to achieve an inclusive growth.

Chakravarty, S. R. and Pal, R. (2010) proposed an axiomatic approach for measuring financial inclusion based on a group of matrices. They considered the eight indicators of financial inclusion as presented by Beck et al (2007). First, they determined the levels of financial inclusion for different income groups in 21 countries including India. Then they determined the FII for all the states of India. Country-wise ranking revealed that Singapore achieved the highest level of financial inclusion while India achieved 13th rank. They observed that the different aspects of banking services contributed to the high level of financial inclusion. State-wise ranking revealed that the majority of states in India had low financial inclusion from 1991 to 2001. However, from 2001 to 2007, these states showed increased level of financial inclusion. Delhi has consistently showed high financial inclusion for three different years. Some states showed a decline in performance in 2007 despite showing a good performance in the previous period. In general, India showed good performance in terms of financial inclusion during the period 2001-07.

Laha, A. and **Kuri, P. K (2011)** attempted to know the level of financial inclusion in the country (India) applying two indices composite in nature one each for demand part, the population in need and the other one on availability of outreach i.e. supply front of financial services. They observed huge disparity between rural and urban regions in India in terms of accessibility to financial services on demand and supply sides. They also found that the Western and Southern regions of India had more financial inclusion with respect to both sides. The study suggests an overall approach that captures both demand and supply aspects related to promotion of holistic financial inclusion of the country.

Chattopadhyaya, S. K. (2011) studied the effectiveness of financial inclusion in the Indian state of West Bengal. He compared the performance of the state against that of all other states of India and surveyed selected districts of the state. The study observed that West Bengal performed poor in terms of financial inclusion. The state of Maharashtra portrayed the best amongst the financial inclusion for states studied. The author claims that after the year 2006, there is limited achievement of financial inclusion. The survey of districts unveils that there is a lack of access to financial inclusion in the rural areas and that informal financial sources such as money lenders still dominate the credit market in rural areas..

Yorulmaz, R. (2013) determined the spread of financial inclusion in Turkey by using three dimensions. He used a methodology similar to that used by Sharma for the calculation of FII. The results showed that regions having high income showed good performance in the index. In other words, people belonging to high income groups had better access to services offered by banking institutions. Within the country of Turkey, Istanbul scored the highest level in FII while mid-east Anatolia showed poor performance.

CRISIL Inclusix (2013) developed an instrument that systematically assesses financial inclusion based on three dimensions, i.e., branch penetration, deposit penetration and credit penetration, at the national, regional, state and district levels. CRISIL Inclusive also helps in making inter-temporal evaluation for financial inclusion.

Thakkar, K. (2014) identified different levels of achievement of financial inclusion in India along with emerging BRICS nations with underlying six indicators on demand side of financial services inclusion. The study revealed that India had very low financial inclusion among the BRICS economies including China, Brazil, Russia and South Africa. The latter three countries have less population than India and hence have a greater amount of financial inclusion owing to the efforts taken by their respective governments.

Ambarkhane, D. *et.al* (2014) used a multidimensional approach with demand, supply, and infrastructure dimensions to measure financial inclusion. They used weighted average of indices to calculate the index for each dimension. This method is also known as Displaced Ideal Method. Using this method, they developed a combined multidimensional index and modified it by using an effect of drag to result in Comprehensive Financial Inclusion Index (CFII). With respect to the CFII, Kerala obtained the top rank while Madhya Pradesh got the lowest rank. Their study revealed that none of the considered 21 states came under high and higher medium category. Kerala and Goa fell in the lower medium category, and all other states came under low category. This result indicated a scope for further development.

2.3 Research Gap

An analysis of the above review of literature clearly shows that financial inclusion is a multidimensional and multi-faceted concept with a focus on various sections and segments of society. It focuses on different target groups like the lower income groups, the backward castes, and classes of a society. It also focuses on women of various sections of the society. In this regard, the concept of financial inclusion can be termed as "Inclusion within Inclusion." It's an all-encompassing phenomenon that needs a thorough probe, and the target of governments and financial institutions is to cover everyone within the fold of financial inclusion. The literature reviewed highlights variety of indices measuring financial inclusion; this causes the anxiousness whether the indices are adequately answering the question as to overall financial inclusion parameters?

The above literature on indices unveil limited penetration of financial services for inclusion of various strata of the Indian demography. It is however relevant to evolve a robust index for including more relevant parameters to draft an inclusive financial inclusion policy.

2.3.1 Index of Financial Inclusion in Sikkim

In the present research, the composite FII is computed based on five dimensions such as Branch Penetration (q_1), ATM penetration (q_2), Credit Penetration (q_3), Deposits Penetration (q_4) and Insurance Penetration ($q_{4)}$. For measuring the extent of financial inclusion in rural areas of Sikkim, the number of bank branches per 1000 population has been used as an indicator of the availability of branches. The number of ATM penetration accounts per 1000 population in the rural area has been used to measure the index of ATM penetration in the present composite FII for the rural population. The number of deposit account per population and number of credit account per population has been used as an indicator of usage of banking services in the present index. The number of life insurance penetration accounts per population in the rural area has been used to measure the index of insurance penetration in the present composite FII for the rural population.

2.4 Method of study.

In order to construct the index for financial inclusion the following literature is reviewed to get a glimpse of the various variables included to capture the progress of financial inclusion (Ref- Table 2.1)

Table 2. 1 Variables used in Financial Inclusion Index in various researches

Researcher	**Variables Used**
Asian Development Banks (2000)	Deposits, Loans, Payments, Insurance and Money transfer.
Stephen P. Sinclair (2001)	Basic banking services including credit, debt and debt assistance, money transformation, insurance, long-term saving and financial literacy.
Chant Link and Associates, Australia (2004)	Deposits account, directs investment, credit cards, personal loans, home loans, building insurance and home insurance.
Treasury Committee, House of Commons, UK (2004)	Affordable credit and services, and access to financial advice.
Honohan (2005)	1. Payment, 2. Saving Mobilization, 3. Monitoring of users of funds, 4. Transforming.
Scottish Government (2005)	Access to products and services, and capacity, skills, knowledge and understanding of products and services.
United Nations (2006 b)	Access to insurance, financial credit, savings, payment services.
Beck, Kunt and Peria (2007)	1. Access and possibility of use, 2. Actual use.
Report of the Committee on Financial Inclusion in India (C. Rangarajan) (2008)	Access to financial services and timely and adequate credit.

Researcher	Variables Used
World Bank (2008)	Access to financial services such as deposit, credit payments insurance.
The Consultative Group to Assist the Poor (CGAP) (2009)	1. Saving, 2. Payments, 3. Credit and 4. Delivery.
Sarma (2010)	1. Percentage, 2. Availability and 3. Usages.
Arora (2010)	1. Outreach, 2. Ease and 3. Cost
Sarma (2012)	Penetration, Availability and Usage of the banking system.
Gupta, Venkataramani and Gupata (2012)	1. Penetration, 2. Availability, 3. Usage, 4. Ease and Cost.
Kunt, Klapper (2012)	1.Formal accounts: (a) the mechanics of the use, (b) purpose, (c) barriers, (d) alternatives to formal accounts, (e) penetration and (f) receipt of payments. 2. Saving behavior: (a) Use of accounts (b) use of community-based savings methods, and (c) the prevalence of savings goals. 3. Sources of borrowing, the purpose of borrowing and use of credit cards and 4. Use of insurance products.
World Bank's Global Financial Inclusion (Global FINDEX) 2012	Level of Savings, borrowings, payments, and managing risk by using the statements.
Rahman (2013)	1. Convent Accessibility, 2. Take up rate, 3. Responsibility usage and 4. Satisfaction level.
Yorulmz (2013)	1. Access, 2. Availability and 3. Deposits Usage
Credit Rating and Information system of India Ltd. (CRISIL) (2013)	1. Branch Penetration, 2. Credit Penetration and 3. Deposit Penetration
IMF 2014	1. ATMs Penetration, 2. Branch Penetration, 3. Deposits Penetration, 4.Resident household borrowers with ODCs per 1,000 adults

Figure 1: Compiled from -RBI

Table 2. 2 Dimensions that measures financial inclusion index

Dimensions	Parameters	Significance
Branch Penetration	Number of bank branches per 1000 population	Measures the facilities of banking services in the rural areas of Sikkim
ATM Penetration	Number of ATM per 1000 population	Measures the facilities of ATM services in the rural areas of Sikkim

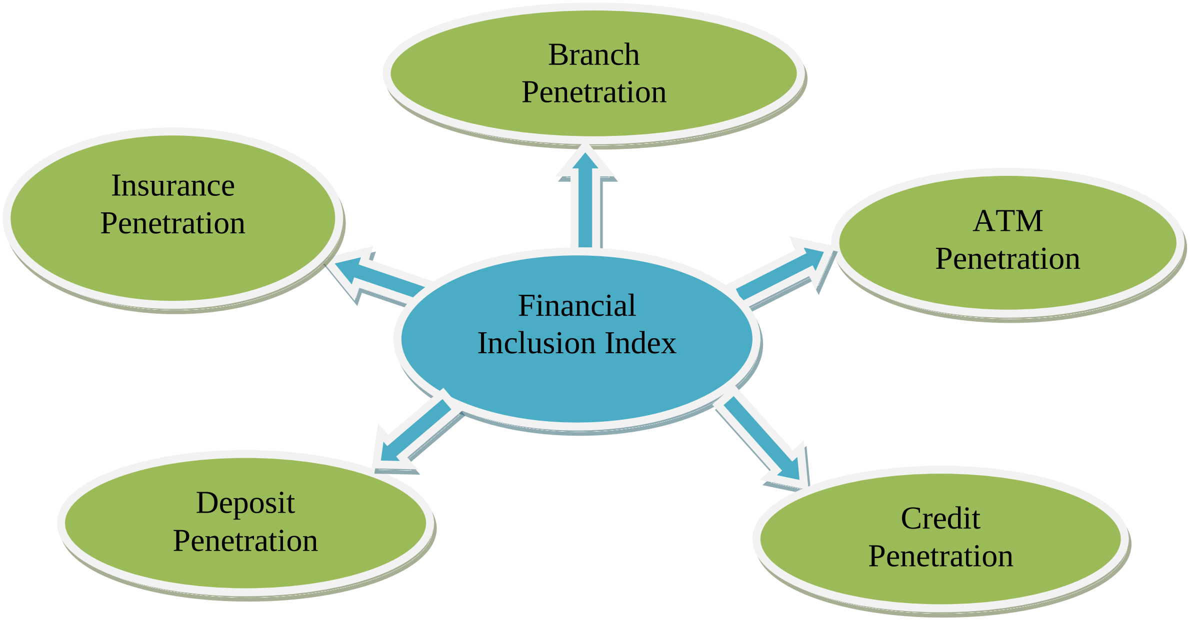
Dimensions	Parameters	Significance
Credit Penetration	Number of loan accounts per 5 population	Measure the access to credit facilities given to the people including agricultural loans and small loans, etc.
Deposit Penetration	Number of savings accounts per 5 population	Measures the access to banks saving products and services by the rural people.
Insurance Penetration	Number of insurance account per capita	Measures the access to banks' life insurance products and services by the rural people of Sikkim

Table 2.2 figures out the composite index for the rural population in Haryana by using data on the above-mentioned three dimensions (q_1, q_2, q_3, q_4 and q_5). The composite index of financial inclusion has been constructed along with five indices of bank branches penetration (q_1), ATM penetration (q_2), usage of financial services in terms of credit (q_3) and deposits (q_4), and insurance penetration (q_5).

Weights assigned to the dimensions: It is difficult to assign appropriate weights to the dimension indexes. All the five dimensions are considered to be important for an inclusive financial inclusion. However, there is a lack of sufficient data with respect to credit penetration, deposit penetration, and insurances dimensions. Thus, these dimensions are assigned less weight in the present index. The consideration of data only on physical outlets such as ATMs and bank branches can presents a partial picture of the accessibility to banking services. In addition, data on deposit, credit, and insurance gives partial information on financial inclusion because it does not consider other banking services such as payments, remittances, transfers, etc. Due to the lack of such data, it is not feasible to completely characterize the dimensions. In the present index, it is found justifiable to assign1 as the weights for index on number of bank branches' penetration and 0.5 for penetration by way of ATMs per population in the area considered, and 0.5 for the index of credit penetration, deposits penetration, and insurance penetration. Thus, the point (0,0,0,0,0) will indicate the worst situation (complete financial exclusion) and the point (1,1,0.5,0.5,0.5) will indicate the greatest or perfect situation (inclusive financial inclusion) in the present context.

In this study, the values of a composite index are presented between zero to one. The index value one represents the highest level of financial inclusion, whereas zero value represents the lowest level of inclusion among all districts of Sikkim.

Figure 2. 1 Dimensions of Measures Financial Inclusion Index



2.4.1 Computation of Index on Financial Inclusion or Financial Inclusion Index:

The inclusiveness of any financial system is suggestive to be assessed in various dimensions, in present study attempt is made using the example from United Nation Development Programme (UNDP), (Sarma, 2012), (Sethy, 2018). The UNDP have evolved indices on Human Development, Human Poverty, and Gender Development etc. This Financial Inclusion Index indicates how much a country is a sound in providing financial services. To construct an index, this study first calculates a dimension index for each parameter of penetration of financial services for inclusion of majority of deprived people.

The First Model implies that $\mathbf{X_i}$ lies between 0 and 1 in extreme cases it may equate **0** or **1** technically it is written as $\mathbf{0 \leq X_i \leq 1}$.Number of parameters of financial inclusion are denoted by **k** and each of them lies on **F** attaining values 1,2,3 .. and so on. Achieving level 0 represents the poor condition and achievement of Level **P** denotes an ideal condition of financial inclusion that may attain values 1,2,3 and so on..

Level**0** and **P** are essential in this model to derive index of financial inclusion. The greater the distance between Level **0** and Level **P** the better is the penetration of financial services for the region under study and the converse is true. The lesser the distance between level **0** and **P** the lesser is the penetration of financial services.

Following is the **Model –I**

$$\boldsymbol{q_i = X_i \times \frac{B_i - l_i}{H_i - l_i}}$$

Here:

$\mathbf{q_i}$= parameter of financial inclusion i.

$\mathbf{X_i}$= proportion of parameter of financial inclusion i (dimension$\mathbf{0 \leq X_i \leq 1}$ **).**

$\mathbf{B_i}$ = Value achieved by parameter of dimension i.

$\mathbf{l_i}$= lowest value achieved or observed of parameter for dimension i.

$\mathbf{H_i}$= Highest value achieved or observed of parameter for dimension i.

The Second Model, for calculation of index on the financial services penetration (FII), evolves the arithmetic mean denoted by $P_1$of the Euclidian space between level 0 and level P. A greater value stands for a larger Euclidian space that represents favorable achievements of the financial services penetration initiatives.

Following is the **Model- II**

$$F_1 = \frac{\sqrt{q_1^2 + q_2^2 + q_3^2 + \cdots + q_k^2}}{\sqrt{X_1^2 + X_2^2 + X_3^2 + \cdots + X_k^2}}$$

The Third Model, captures the inverse of the Euclidian space between P_2 and X even in this model the greater distance between P_2 and X implies better penetration of financial services and converse is true that the lower value suggests that the financial services penetration measures are inadequate.

Following is the **Model -III**

$$\boldsymbol{F_2 = 1 - \frac{\sqrt{(X_1 + q_1)^2 + (X_1 + q_1)^2 + \cdots (X_k + q_k)^2}}{\sqrt{X_1^2 + X_2^2 + X_3^2 + \cdots + X_k^2}}}$$

The Fourth Model is meant to know the arithmetic mean of P_1 and P_2. This captures the Financial Inclusion Index.

Following is the **Model-IV**

$$\boldsymbol{Index\ on\ Financial\ Inclusion\ (FII) = \frac{1}{2}(F1 + F2)}$$

Table 2. 3 Index Score

Index Score	**Level of Financial Inclusion**
0.50 ≤FII ≤ 1.0	high financial inclusion
0.30 ≤ FII< 0.50	medium financial inclusion
0.00 ≤ FII< 0.30	low financial inclusion

Source: CRISIL Report (2013), Sarma (2010),

3.1.4 Level of Financial Inclusion in Sikkim.

This section presents the level of financial inclusion across the districts in three categories like high financial inclusion, moderate financial inclusion and low financial inclusion. The level of financial inclusion is categorized into three categories based on various noted research works:

Table 2. 4 Index Parameters

Parameters	Districts	Population	H_i	B_i	l_i	X_i	q_i
Branch Penetration	East	254722	255	86	1	1	0.34
	North	38875	39	11	1	1	0.26
	South	131672	132	31	1	1	0.23
	West	121348	121	18	1	1	0.14
ATM Penetration	East	254722	255	147	1	1	0.58
	North	38875	39	13	1	1	0.32
	South	131672	132	38	1	1	0.28
	West	121348	121	20	1	1	0.16
Credit Penetration	East	254722	50944	20044	1	0.5	0.20
	North	38875	7775	2086	1	0.5	0.13
	South	131672	26334	10722	1	0.5	0.20
	West	121348	24270	6182	1	0.5	0.13
Deposits Penetration	East	254722	50944	31278	1	0.5	0.31
	North	38875	7775	793	1	0.5	0.05
	South	131672	26334	3749	1	0.5	0.07
	West	121348	24270	2015	1	0.5	0.04
Insurance Penetration	East	254722	254722	15639	1	0.5	0.03
	North	38875	38875	397	1	0.5	0.01
	South	131672	131672	1875	1	0.5	0.01
	West	121348	121348	1008	1	0.5	0.00

Sources: RBI, SLBCS,

From the above (Ref- Table-3) expressed that districts -wise Banking penetration, ATM penetration, Credit penetration, Deposits penetration, Insurance penetration. And also $_i$ represents the district -wise maximum value of dimensions, B_i represent the Value achieved by parameter of dimension i, l_i represent the lowest value achieved or observed of parameter for dimension i, q_i refers parameter of financial inclusion i, $\mathbf{X_i}$ proportion of parameter of financial inclusion i (dimension

$\mathbf{0 \leq X_i \leq 1}$)

Table 2. 5 The Value F_1

Districts	Branch Penetration	ATM Penetration	Credit Penetration	Deposits Penetration	Insurance Penetration	F_1
East Sikkim	0.34	0.58	0.20	0.31	0.03	0.63
North Sikkim	0.26	0.32	0.13	0.05	0.01	0.38
South Sikkim	0.23	0.28	0.20	0.07	0.01	0.36
West Sikkim	0.14	0.16	0.13	0.04	0.00	0.21

Source: RBI, SLBCS

Calculation of Ref-Table 2.6

$$\textbf{East Sikkim } \boldsymbol{F_1} = \frac{\sqrt{0.32^2+0.58^2+0.20^2+0.31^2+0.03^2}}{\sqrt{1^2+1^2+0.5^2+0.5^2+0.5^2}} = 0.63$$

$$\textbf{North Sikkim } \boldsymbol{F_1} = \frac{\sqrt{0.26^2+0.32^2+0.13^2+0.05^2+0.01^2}}{\sqrt{1^2+1^2+0.5^2+0.5^2+0.5^2}} = 0.38$$

$$\textbf{South Sikkim } \boldsymbol{F_1} = \frac{\sqrt{0.23^2+0.28^2+0.20^2+0.07^2+0.01^2}}{\sqrt{1^2+1^2+0.5^2+0.5^2+0.5^2}} = 0.36$$

$$\textbf{West Sikkim } \boldsymbol{F_1} = \frac{\sqrt{0.14^2+0.16^2+0.13^2+0.04^2+0.00^2}}{\sqrt{1^2+1^2+0.5^2+0.5^2+0.5^2}} = 0.21$$

Table 2. 6 The Value of F_2

Districts	Branch Penetration	ATM Penetration	Credit Penetration	Deposits Penetration	Insurance Penetration	F_2
East Sikkim	0.34	0.58	0.20	0.31	0.03	0.41
North Sikkim	0.26	0.32	0.13	0.05	0.01	0.24
South Sikkim	0.23	0.28	0.20	0.07	0.01	0.23
West Sikkim	0.14	0.16	0.13	0.04	0.00	0.14

Source: RBI, SLBC.

Calculation of Ref-table 2.6

East Sikkim F_2

$$= 1 - \frac{\sqrt{(1-0.34)^2+(1-0.58)^2+(0.05-0.20)^2+(0.5-0.31)^2+(0.5-0.03)^2}}{\sqrt{1^2+1^2+0.5^2+0.5^2+0.5^2}}$$

$= \; 0.41$

North Sikkim F_2

$$= 1 - \frac{\sqrt{(1-0.26)^2+(1-0.32)^2+(0.05-0.13)^2+(0.5-0.05)^2+(0.5-0.01)^2}}{\sqrt{1^2+1^2+0.5^2+0.5^2+0.5^2}}$$

$= \; 0.24$

South Sikkim F_2

$$= 1 - \frac{\sqrt{(1-0.23)^2+(1-0.28)^2+(0.05-0.20)^2+(0.5-0.07)^2+(0.5-0.01)^2}}{\sqrt{1^2+1^2+0.5^2+0.5^2+0.5^2}}$$

$= \; 0.23$

West Sikkim F_2

$$= 1 - \frac{\sqrt{(1-0.14)^2+(1-0.16)^2+(0.05-0.13)^2+(0.5-0.04)^2+(0.5-0.00)^2}}{\sqrt{1^2+1^2+0.5^2+0.5^2+0.5^2}}$$

$= \; 0.14$

From the above Ref- Table 2.5 and 2.6 represent the present index shows three level of financial inclusion such as high financial inclusion, medium level financial inclusion, and low financial inclusion. Table reveals the district-wise ranks in q_1, q_2, q_3 q_4, and q_5 composite index (FII). The table shows that out of four districts, only East district has the highest rank in the composite index of financial inclusion that is also score medium level financial inclusion. East district has the highest rank in the index of q_1, q_2, q_3 q_4, and q_5. It shows that banking institutions are at top rank in branch penetration, If we see the North district dimensions out of four dimensions second dimension ATM penetration score the highest rank but if we compare that point with above mention financial inclusion point its score the low level financial inclusion only. Its show that in the districts of North Sikkim ATM services is slightly better as compare to other services. But others four dimension i.e. branch, credit, deposit and insurance penetration of north districts are score low level Financial Inclusion its results that out of five dimensions four dimensions i.e. q_1, q_3, q_4, q_5, are not performing well in the district of North Sikkim. In the districts of south Sikkim all dimensions have scored low level financial inclusion so it reflects that financial services are not performing well in the district of South Sikkim the districts of West Sikkim its score low level financial inclusion and its rank also last. So its reflects that people of west Sikkim they are not access to financial services properly.

Table 2. 7 Index of Financial Inclusion

Districts	F1	F2	FII	Index Score	Rank
East Sikkim	0.63	0.41	0.52	High	I
North Sikkim	0.38	0.24	0.31	Medium	II
South Sikkim	0.36	0.23	0.30	Medium	III
West Sikkim	0.21	0.14	0.18	Low	IV

Source: RBI, SLBC.

Calculation of Ref-Table 2.7

East Sikkim $\text{FII} = \frac{1}{2}\,(0.63 + 0.41) = 0.52$

North Sikkim $\text{FII} = \frac{1}{2}\,(0.38 + 0.24) = 0.31$

South Sikkim $\text{FII} = \frac{1}{2}\,(0.36 + 0.23) = 0.30$

West Sikkim $\text{FII} = \frac{1}{2}\,(0.21 + 0.18) = 0.18$

Ref-Table 2.7 expressed its can be seen that according to the database which is provided by the (State Level Banker's Committee (SLBC), Sikkim 2017)[1] and (RBI 2017) the Index Scores of Financial Inclusionin the rural areas of four districts in Sikkim. From the Scores secured of the four districts of Sikkim, it is highlighted that East district of Sikkim has achieved 0.52 that is the maximum score of financial inclusion in the rural areas by the year 2017 (between $0.50 \leq \text{FII} \leq 1.0$) High. The North district and South Sikkim has medium level of financial inclusion index (between $0.30 \leq FII < 0.50$). And the West districts have a very low level of financial inclusion. West Sikkim has secured only 0.18 Index Score of Financial Inclusion its shows that overall result of the index of Financial Inclusion in Sikkim was not performing well.

2.5 Conclusion

The Global Financial Development report of 2014 revealed that more than 2.5 billion adults (around half of the adult population worldwide) have no bank account owing to both demand and supply-side barriers. Many countries, including developed ones such as the USA and Australia have realized that structured efforts are required to enhance financial literacy for financial inclusion. Around 50 countries have targeted to include financial inclusion in their formal development plans. Today, it is increasingly realized that financial inclusion is key to a statutory compliance and is also a profitable and sustainable business proposition based on the popular philosophy of *fortune at the bottom of the pyramid.* In this regard, India has put much efforts and invested many resources to expand the banking network to include unbanked people.

After the submission of Dr Rangrajan Committee recommendations (2008), the RBI and the Government of India have taken vigorous efforts to bring more inclusivity in the financial system, especially in rural areas. Efforts have been made to influence the factors associated with both supply and demand sides of financial inclusion. Since the last census of 2001, the percentage of households having a bank account has increased from 30 to around 55 percent in rural India. During the last five years, new branches have opened in the rural area and account for about thrice the number of branches in urban areas. Banks have been permitted (since2006) to use intermediary business correspondent and business facilitators to provide financial services in far-flung unbanked rural areas. In such areas, 50,000 ultra-small branches have been set up until March 2013.

Sikkim, being a hilly territory, is geographically far from many facilities such as network, transportation systems, etc. Consequently, the FII in the state is poor. In Sikkim, there are many opportunities as well as challenges for realizing the goal of financial inclusion. It is a small state with geographical, social, and economic diversities. It is evident from the study that there is a vast disparity in financial inclusion front. East Sikkim is at the top with respect to the number of bank offices in the urban area.

The study developed an FII to determine the degree of financial inclusion in four districts of Sikkim. It was revealed that the East district has the highest value in composite FII for the population. On the other hand, the West district has the lowest financial inclusion. These results indicate that districts with more social and economic empowerment have performed better in inclusion front. Banking Availability is the major contributor to composite FII across the districts of Sikkim. Although the financial inclusion initiatives of government and RBI have delivered encouraging results in terms of financial inclusion, there is a huge untapped potential lying in rural unbanked areas in Sikkim.

Effective programs for financial literacy and capacity building are required to tap this fortune at the bottom of the pyramid. Banking institutions should design, develop, and deliver tailor-made financial services that suite to the customers' choice and requirements. This can ensure every citizen of the country participates in the inclusive financial system. All stakeholders in inclusion drive should take it as a sustainable and profitable business proposition rather than a mandatory compliance.

Over and above the banking parameters, the insurance penetration portrays a gloomy picture which is far below the national average. Approach of people to the insurance products and their marketing is the key cause. A topographically restricted geography warrants the need for insurance for all from natural calamities and the unforeseen events.

The present state government lead by Sri Prem Singh Tamang and the national leadership of Sri Narendra D Modi the Prime minister of India as announced by the President of India Sri Ramnath Kovind in the Joint parliament session dated 20th June 2019 have plans to include economically deprived people in the ambit of insurance.

However, the causes of such a poor penetration index for insurance services will be discovered in details the following chapters.

Chapter- 3

3.1 Financial Inclusion: Initiatives Undertaken and New Forms of Financial Services Providers

Given the huge significance of financial inclusion in the current scenario and the level of financial exclusion in the country, it becomes pertinent to look into the initiatives undertaken to promote financial inclusion in India. Moreover, since the formal financial system network failed to consider the underprivileged and weaker sections of the society, it is necessary to look into new forms of financial service providers who can assist the formal financial institutions in fulfilling the goal of financial inclusion.

This chapter outlines the initiatives undertaken in India by the Government in parity with the Reserve Bank of India since Independence. It also looks into some of the new forms of financial service providers and analyzes its role in promoting financial inclusion.

3.1.1 Outline of the Initiatives Undertaken

Financial exclusion is a concern even in developed countries, and researchers are focusing on studying its causes and designing appropriate strategies that can ensure the inclusion of the poor and disadvantaged into the financial system. Financial exclusion could be for various reasons that vary from region to region, and hence, appropriate strategies should be formulated accordingly. The approach followed to promote financial inclusion in developing countries like India is different from that followed in developed countries owing to difference in the levels of financial exclusion (Thorat, 2006)

The establishment of credit cooperatives due to the enactment of the Cooperative Societies Act in 1904 led to the institutionalization of financial inclusion systems in India. Based on the recommendations of the All India Rural Credit Survey Committee of 1954 (Kelkar, 2008), the Government of India and the Reserve Bank of India intensified their efforts to promote financial inclusion and increase banking penetration in the country. The present form of financial inclusion was only recently included in policies. In this regard, the different initiatives undertaken can be categorized into three phases. The first phase was from Independence up to 1991, with a focus on promoting credit in the weaker sections and neglected sectors of the society.

The second phase spanning from 1990 through March 2005[87] focused on financial sector reforms including the strengthening of financial institutions. This was further promoted with the introduction of Kisan Credit Cards for providing credit to farmers and self-help group-bank linkage programs in 1990s. The third phase starting from April 2005 onwards saw the introduction of the concept ‘financial inclusion’ as a major objective of policies (RBI, 2008).

The phase-wise initiatives undertaken are presented below. Note that the main thrust was given to the third phase.

3.1.2 The First Phase (The Post-Independence Period up to 1991)

Although the initiatives for bringing more people into the ambit of the formal financial institution began before Independence, it was only after Independence that the Government of India and Reserve Bank of India intensified their efforts to increase the penetration of banking system in the country. Up to 1991, the below mentioned initiatives were undertaken for promoting the utilization of banking system for equitable and sustainable growth of the economy.

- In 1950, a large-scale network of rural cooperative banks was established to support deposits and savings towards small-scale cottage industries and agriculture in the country.
- The All India Rural Survey Committee recommended the establishment of a state-sponsored bank. This resulted in the creation of the State Bank of India in 1955.
- To extend the reach of formal banking services to the rural population and the neglected sections of the society, 14 major commercial banks were nationalized in 1969, followed by another 6 banks in 1980.This marked a paradigm shift in banking sector, i.e., from class banking to mass banking. This important step eased the expansion of the banking system to unbanked areas, bestowing on them the special responsibility of stepping up advances for all the areas identified as 'priority sector' areas.
- The Lead Bank Scheme was introduced in December1969.
- The Reserve Bank of India issued priority sector guidelines to the banks so as to improve credit flow to the neglected sectors.
- The Differential Rate of Interest (DRI) Scheme was implemented in 1972 to provide credit at a concessional rate to low-income groups in the country.
- the branch licensing policy was established during the period 1970 and 1980. In 1975, RRBs were set up to deal with the credit demands of the neglected segments of the rural economy who required a large number of flexible, simple, and small-sized financial products.

- To increase the number of bank branches in unbanked locations, the 1:4 license rule was set up in 1977. This rule stated that a bank needed to open four branches in unbanked locations before opening a branch in a banked area.
- In 1982, the National Bank for Agriculture and Rural Development (NABARD) was established as an apex-level institution to handle all agricultural and rural development issues.
- The Service Area Approach scheme was announced to provide a new approach to rural lending. In this approach, a designated area would be assigned teach rural and semi-urban branch of an SCBs (including RRB) such that it could plan strategies for developing the area in co-ordination with all the development and extension agencies of the State Government.
- The implementation of the initiatives from 1969 to 1991 led to rapid development including an increased number of bank branches, decreased average population per bank offices, increment in deposits, advances, and lending to the priority sectors, etc. The significance of the informal sector also declined with the spread of the banking system to rural areas.

3.1.3 The Second Phase (Post-Reforms Period 1991-2005)

The banking policy from 1990s to the medium of the first decade of the 21st century focused on creating a strong and efficient system of banking.

In this phase, SHG-Bank Linkage Program was introduced in 1992 and the Kisan Credit Cards (KCCs) scheme was formulated in 2001 for giving credit to farmers. Some of the important steps taken during this phase were:

- Emphasis was on micro-finance to include financially excluded people in the formal financial sector.

- NABARD, with policy support from the RBI, launched the SHG-bank linkage program for providing 'door step' banking and facilitating collective decision-making among the poor people.
- In 1998, banks were advised to facilitate the opening of savings accounts of those SHGs engaged in encouraging savings habits among their members.
- In 1998-99, NABARD along with commercial banks, co-operative banks, and RRBs presented the KCC scheme to facilitate the credit delivery system. The scheme aimed at the timely availability and hassle-free crop loans to the farmers.
- In 2003, NABARD introduced the Swarozgar Credit Card (SCC) scheme to facilitate hassle-free credit for working capital requirements and meeting investments. This scheme targeted small-scale borrowers and rural micro-entrepreneurs like small-scale artisans, fishermen, handloom weavers, rickshaw owners, self-employed persons, SHGs, service sector, etc.

3.1.4 The Third Phase (Recent Initiatives from 2005 onwards)

In its Annual Policy Statement for 2005-06, the RBI explicitly used the term 'financial inclusion' for the first time in India. It gave a renewed emphasis on including the financially excluded people in the banking system. In this recent focus, the important attribute was the implementation of a market-oriented approach that addresses the significance of banks and other financial institutions in the long-term process of sustainability.

In India, most of the policy initiatives are initiated /undertaken by the Government of India and the RBI. Hence, the policies are categorized under two heads:

3.1.5 The Government of India

The Government of India has announced several initiatives and issued several directives to the RBI for promoting financial inclusion in the country.

Committee on Financial Inclusion

In June 2006, the Government of India created a 'Committee on Financial Inclusion' under the chairmanship of Dr C. Rangarajan. This committee studied the problem of financial exclusion of rural poor and suggested guidelines for improving financial inclusion. Based on the recommendations of the Interim Report of Dr Rangarajan Committee, the Government has constituted two funds. One of these funds is the Financial Inclusion Fund (FIF) for managing the cost of promotional and developmental interventions of financial inclusion; the other is the Financial Inclusion Technology Fund (FITF) for meeting the cost of technology adoption.

High-Level Committee on Financial Sector Reforms: In 2007, the Planning Commission created a High-Level Committee on Financial Sector Reforms with Dr. Raghuram G. Rajan as its Chairman. This committee focused on identifying the challenges of meeting the financing needs of the Indian economy as a whole. Most of its recommendations also highlighted the need for developing strategies to achieve financial inclusion (FICCI, 2011).

The revival of Rural Co-operative Credit Institutions: The Government of India approved the revival of short-term rural co-operative credit structure based on the recommendations of the Task Force on Revival of Rural Co-operative Credit Institutions under the Chairmanship of Shri A. Vaidyanathan and in consultation with State Governments,. Moreover, the revival package for long-term rural co-operative credit structure has also been announced.

Interest Subvention

The Government provides interest subvention of 2% to all public sector banks for providing short-term production credit up to Rs.3 lakh to farmers at 7 percent per annum.

Adoption of Electronic Benefit Transfer (EBT): The Rangarajan Committee had recommended that the State Governments should use technology-based solutions to make payments under NREGA and Social Security Payments. Accordingly, the Government of India announced several measures in the Union Budget 2008-09. The RBI also requested the State Governments to explore the possibility of routing/transferring government benefits electronically (Electronic Benefits Transfer) through banks directly to the bank account of the beneficiary by leveraging ICT-based solution and deliver it at their doorstep. This step will reduce the dependence on cash and lower the transaction costs.

Road Map for Providing Banking Services in Unbanked Villages with a Population of More than 2000

After the announcement of this scheme in the Budget Speech of 2010-11, the RBI advised the banks to chart a plan to provide financial services to unbanked villages with over 2000 population by March 2012. These services could be provided via ICT-based models and need not necessarily be provided through a bricks and mortar branch. Accordingly, this led to the identification of around 73,000 unbanked villages that were assigned to various banks through state-level bankers' committees.

Swabhiman

Swabhiman, the flagship program of the UPA II government, was launched on 10th February 2011 with an aim to provide branchless banking via advanced technology.

In this scheme, the banks were required to provide basic services such as withdrawals, deposits, and remittances by using Business Correspondents. This benefitted the beneficiaries as it enabled social security benefits and government subsidies to be credited directly to their accounts. The beneficiaries could then withdraw the money from the Business Correspondents in their village.

Unique Identity Number/Aadhaar

In 2009, the Government of India established the Unique Identification Authority of India (UIDAI) to provide a unique identity number (UID) to each resident of the country. The UID uses the existing technological links to reach out to the unbanked population and promises bank accounts to the residents if they indicate consent to open one. By providing proof of resident and identity, the Aadhaar number has the potential of transforming the delivery mechanism of social welfare programs by making them more inclusive and efficient in reaching out to the intended beneficiaries who are presently let out due to their lack of identification. It can enable the government to provide direct benefits instead of the current indirect benefits and help confirm whether the intended beneficiaries actually receive the welfare benefits by using the biometric online authentication services to be facilitated by the UIDAI (Khound, 2012).

Direct Cash Transfer (DBT)

The government started a new scheme, DBT Scheme, from January 1, 2013, for providing the benefits of 29 welfare programs directly to the beneficiaries. These welfare programs are mainly concerned with scholarships and pensions for the old and disabled and are operated by different ministries. The subsidies or benefits are transferred to the bank accounts of the beneficiaries with the help of the Aadhaar scheme for electronic identification of all individuals. It is expected that the scheme will gradually include 42 benefits and will cover the whole country. Cash transfer scheme will help in better targeting of subsidies and reduce delay in delivery of benefits besides curbing wastages and leakages.

3.1.6 The Reserve Bank of India

As the major policy maker in the banking sector, RBI has emphasized on financial inclusion since 2005 when it used the term for the first time in India in its Annual Policy Statement for FY 2005-06. It has advised banks to review and align their existing practices with the objectives of financial inclusion. In this regard, the RBI have taken s measures for ensuring financial services penetration to include the deprived population and facilitate them with the well structured system of financial institutions and services.

No Frills Accounts

In November 2005, the RBI asked the banks to enable the availability of a basic banking ‘no frills’ account that had ‘nil’ or very low minimum balances and charges. The aim here was to enable the different sections of the society to have access to such accounts. However, these accounts are associated with limited number and nature of transactions that would be notified to the customers in advance and in a transparent manner. Banks have also been advised to provide small overdrafts in such accounts. RRBs are also required to provide limited overdraft facilities in the ‘no frills’ accounts, without any collateral. Moreover, all banks have been asked to create awareness regarding the facilities of such accounts so as to ensure greater financial inclusion. They have also been urged to use regional languages for bank materials. It is expected that no-frills accounts can help expand the access to banking services, particularly to the low-income groups.

Simplification/Relaxation on KYC Norms

The 'Know Your Customer' (KYC) norms have been relaxed to ensure that low-income groups can open bank accounts with balance not exceeding Rs. 50000 and credit limits not exceeding Rs. 100000 in a year without facing any procedural hassles. The revised KYC norms now consider the UID card and the job card issued by NREGA as valid documents that can be used for opening small accounts.

General Credit Card (GCC)

Similar to KCC, the general purpose credit card (GCC) issued by banks revolved credit up to Rs. 25000 at deregulated interest rates to bank customers without asking for any security or purpose. This GCC card is available in rural and semi-urban bank branches and is aimed at providing the poor and the disadvantaged easy access to credit. Moreover, 50 percent of the GCC loans are treated as part of the banks' priority sector lending.

100% Financial Inclusion Drive

The State-Level Bankers' Committee (SLBC) conveners in all states have been given the task of reaching 100% financial inclusion in at least one district in their area. For this, the villages were allocated to different banks so as to ensure that each one can have a bank account. Initially, the Sonitpur district and later Barpeta district in Assam were selected for this task. Moreover, a special drive has been initiated for districts having the maximum concentration of Scheduled Castes/Scheduled Tribes and minorities.

Business Facilitator (BF)/Business Correspondent (BC) Model

In January 2006, RBI granted permission for banks to involve the services of NGOs, SHGs, Micro-Finance Institutions (MFIs), and Non Banking financial Institutions NBFCs not accepting public deposits, post offices and other civil society/ community based organizations as intermediaries in the form of its business facilitators and business correspondents for a better outreach of financial and banking services to the needy and deprived sections of the society to augment the client base. It is to help in moving towards 100% financial inclusion. Considering the high transaction cost and low profitability, the banks are increasingly relying on such intermediaries based on business facilitator and business correspondent model to fund borrowers in rural areas (Chakravarty, 2006; Dev, 2006).

From time to time, the RBI has enlarged the scope of eligible entities to be engaged as Business Correspondents. Banks employ retired bank employees, government employees, ex-servicemen, individuals, individual public call office (PCO) operators, Kirana / medical/fair price shop owners, agents of small savings schemes and insurance companies, retired teachers, individuals who own petrol pumps, and SHGs linked to banks as business correspondents by banks. From September 2010 inwards, ‘for-profit’ corporate entities can be engaged as business correspondents. Banks are in talks with Indian Postal authorities for enabling the use of the enormous network of post offices as business correspondents, thereby increasing their outreach. The business correspondent’s model enables banks to carry out ‘cash in - cash out’ transactions at locations nearer to the rural population, thus addressing ‘the last mile problem’. To ensure the viability of the business correspondent’s model, banks can collect reasonable service charges from the customer, in a transparent manner under a Board-approved policy.

Simplified Branch Authorization/ATM Expansion: To manage the issue of non-uniform spread of bank branches, domestic scheduled commercial banks (SCBs) can open bank branches in Tier 3 to Tier 6 places with population less than 50,000 population with relaxed permission, prior report for the same must be made to the RBI. Banks can now observe the location of ATMs without any prior authorization. In the North Eastern States and Sikkim, domestic SCBs can now open branches in rural, semi urban and urban centers without having to obtain prior permission from RBI in each case, subject to reporting.

Opening of Branches in Unbanked Rural Centres

To expand the number of branches in rural areas, i.e., improving banking penetration and financial inclusion rapidly, more number of brick and mortar branches should be opened in addition to the use of business correspondents. It is however compulsory for banks to assign not less than 25 percent of the branches to open within a year in deprived of banking rural areas classified as Tiers 5 and 6. They have also been urged to establish more branches in the North Eastern Region.

Use of Information Technology

The RBI aptly believes that certain challenges such as higher transaction costs, lack of adequate infrastructure, and low volumes of transactions can be met using IT-enabled services. According to Leeladhar (2005), technology can be used to provide access to banking products and services in remote areas. Cash dispensing machines and ATM scan be suitably modified to make them more user-friendly for those individuals who are less educated, illiterate, or do not know English. The role of technological innovations is much more important in decreasing the dependency on informal sources.

These technological advancements should incorporate the features of informal agencies that attract the poor and can be implemented in the formal agencies (ISED, 2006).

Banks are encouraged to utilize Information and Communication Technology (ICT) for addressing the issues related to credit delivery and outreach in remote and rural areas. Business correspondents can use ICTs for providing doorstep banking services (payment and receipt of cash) to rural customers. ICTs can also be used for enabling illiterate customers to operate their accounts by using mobile hand electronic devices and bio-metric smart cards. This step can ensure secure transactional services and enhance confidence in the banking system. The RBI has urged the banks to upgrade their IT initiatives so as to provide financial inclusion rapidly. This up gradation will also ensure that the financial solutions are highly secure and can undergo audits. Banks have also been advised to follow widely accepted open standards for facilitating inter-operability among the different systems (Chakrabarty, 2011).

Mobile Banking

In October 2008, the RBI issued guidelines for carrying out mobile banking transactions. According to these guidelines, banks can carry out mobile transactions such that the transactions occur among bank accounts only. The guidelines also allowed banks to use their business correspondents to extend this facility.

Financial Literacy

The RBI has addressed that the lack of awareness is one of the main factors responsible for financial exclusion and has hence taken numerous measures to spread awareness regarding financial products and credit counseling. In this regard, the RBI has also undertaken ‘Project Financial Literacy’ to spread information on the central bank and general concepts of banking to various target groups. It has targeted women, school children, youth, rural and urban poor people, defense personnel and senior citizens. In addition, the RBI launched a multilingual (13 languages) website (link ‘Financial Education’) on all aspects of banking in June 2007. It has also come out with its first comic book titled ‘Raju and the Money Tree’ in 2007, published in 13 languages and has posted it on its website to create awareness about basic banking among common people and children. Many more comic books have been published and are also in the pipeline. The state governments and the SLBC are also actively coordinating with the RBI to launch financial literacy programs in each state.

Financial Literacy and Credit Counseling Centers (FLCCs)

Each SLBC convener is expected to establish a pilot credit counseling center in one district and then extend it to the other districts gradually. These centers are required to impart free education on various financial products and services to people residing in both rural and urban areas. As on March 2011, a total of 225 credit counseling centers have been established in different states. Moreover, a model scheme on financial literacy and credit counseling centers (FLCCs) was developed and communicated to all scheduled commercial banks and RRBs. These financial institutions are expected to establish centers as distinct entities while maintaining an arm’s-length relationship with the parent bank so that the FLCC’s services can be used by other banks’ customers in the district.

Financial Curriculum in Schools and Colleges: In order to expand the financial literacy drive, the RBI has collaborated with state governments across the country and has requested them to include financial literacy curriculum in the school syllabus. This initiative was first launched in Karnataka.

Financial Inclusion Plan for Banks

In order to achieve planned, sustained, and structured financial inclusion, the RBI has advised all banks, including both public and private sectors, to submit a Board-approved three-years Financial Inclusion Plan (FIP) starting April 2010. The banks have also been asked to integrate these FIPs with their business plans and include financial inclusion as a parameter in the performance evaluation of their staff. The RBI closely monitors the implementation of these plans.

Priority Sector Lending

In April 2007, the RBI revised the guidelines on priority sector. These new guidelines were issued to deal with increasing perception that the expanded eligible sectors under 'priority sector' in the post-reform period resulted in inadequate credit flow to traditionally preferred sub-sectors such as small industries and agriculture. The RBI also limited its inclusion to highly employment intensive sectors such as small enterprises, agriculture, educational loans, retail trade, micro-finance, and low-cost housing. Moreover, micro-finance was categorized under priority sector lending, and lending to SHGs was included in the weaker sections of the priority sector. For this, the banks have been asked to provide adequate incentives to their branches for financing the SHGs.

Special Package for North Eastern States

- The RBI introduced the Special Dispensation Scheme to expand banking penetration in the North-East, particularly in unbanked blocks. Under this scheme, the RBI will fund the required capital and running costs for a period of five years provided that the concerned state government established the necessary premises and appropriate security.

- In 2009, the RBI launched the Satellite Connectivity Scheme to overcome network connectivity issues in the North Eastern states. Under this scheme, the RBI provided 100 percent subsidy to those bank branches established in the North Eastern states subject to the actual expenditure or a maximum of Rs. 12,000 per month, whichever is less. These subsidies will be effective if the branches offered electronic fund transfer services freely to their customers. The scheme was successful as numerous branches and off-site ATMs have taken satellite connectivity.
- In July 2009, it was identified that 69 of the total 120 unbanked blocks in India were in the Northeast. Hence, the RBI has urged PSBs and RRBs to open more bank branches in this region. The Ministry of Finance (MoF) is periodically monitoring progress and has encouraged banks to add more branches or provide branchless banking facilities to the unbanked blocks through the SLBC mechanism.
- RBI has conducted 21 outreach programs, three each in all North East states to convert those villages into model villages giving focus on four areas, i.e., one account per household, one credit to an eligible borrower in the village, no shortage of notes and coins and banking grievances redressed mechanism in place.
- In every state, a Task Force has been formed to look into suitable technology and innovative e-payment products to reduce transaction costs and provide an

alternative mode for accessing banking and payment services for every segment of the society.

It can be said that a multi-pronged strategy has been adopted in India to promote financial inclusion. However, its success will depend on how all the stakeholders are adopting these measures. For example, although no-frills accounts are supposed to be provided along with overdraft facility, it has been found that most of the banks have not only shown their disinterest in creating awareness in this regard but also restricted the use of overdraft facility. Therefore, it is of utmost importance that all the initiatives are adopted in its true spirit.

3.1.7 Various New Forms of Financial Service Providers

India has a wide network of financial institutions to provide access to financial services to the wider sections of the population. These include the organized and formal financial system comprising commercial banks, RRBs, Post Offices, Co- operative Banks, Primary Agricultural Credit Societies (PACS) will be catering to the needs of financial services of the people. Besides, microfinance institutions (MFIs) and SHGs, which are a part of the semi-formal system, also meet the financial service requirements of the poorer segments. In recent years, development of the institutional framework has focused on new models of expanding financial services through business facilitators/correspondents model using multiple channels such as civil society organizations (CSOs), non-government organizations (NGOs), post offices, farmers' clubs, panchayats, individuals, etc. (RBI, 2008). This section mainly deals with some of the important new forms of known conventional banking partners/financial service providers who are tipped to be important vehicles in promoting financial inclusion in the country.

3.1.8 New Forms of Financial Service Providers in Rural Areas

3.3.2.1 Inadequacies in rural access to formal finance and the seemingly extortionary terms of informal finance for the poor provide a strong need and ample space for innovative approaches to serve the financial needs of India's rural poor (Basu and Srivastava, 2005).

3.1.9 Microfinance Channel

According to Tripathy (2012), micro-finance programs emerged in the developing countries due to the limitations of financial sectors, including both formal and informal, in providing financial services to the poor and rural population. Micro-finance programs combine the safety and reliability of formal finance with the convenience and flexibility of informal finance (Basu and Srivastava, 2005).

Planners and development practitioners have been advocating the provision of microfinance to bridge the gap between the supply and demand for rural credit services because of its favorable impact on household welfare and poverty alleviation. In India, the microfinance movement started with the introduction of SBLP in the early 1990s (Tripathy, 2012).

Microfinance is an effort to provide thrift, credit, and other products and services related to finance in relatively small amounts to the deprived and poor, be it in Urban settlements, Sub-Urban Settlements of remote rural places with a view to enable them to make their living better by improving the level of current income (Thingalaya et al, 2010).

Microfinance is considered as the natural vehicle for promoting financial inclusion as its penetrative outreach enables it to expand credit facilities to the poorest of the poor, the hardcore and asset-less poor, in remote and unbanked regions (Joshi, 2011). Since many of MFIs operate in a limited geographical area, as these institutions better comprehend the problems specific to the deprive. MFIs have better acceptance amongst the financially deprived because of the flexibility and cushion for the well tailored services and products (Rangarajan Committee, 2008).

According to Tripathy (2012), microfinance is characterized by the low cost of loans and a high degree of repayment. The thrust of the microfinance initiative is to organize the poor into small and cohesive SHGs and channelize both production and consumption credit in multiple doses. Microfinance interventions are expected to inculcate banking habits necessary for economic development and self-reliance.

Although there are several models of microfinance prevalent in India, two, the SHG-Bank Linkage Program (SBLP) and Microfinance Institutions (MFIs) – Bank Linkage program are the most prominent. Under SBLP, financing banks extend services like savings and credit to the groups directly while other stakeholders like NABARD, banks, NGOs, government, insurance providers, etc. extend support services including organization and nurturing of groups, capacity enhancement of their members, etc. In MFI model, lending to SHG members is done through microfinance institutions.

SHG-Bank Linkage Model (SLBP): Among the various models of microfinance prevailing in India, the SLBP is the most prominent one. It was started by NABARD in 1992 to link the poor with the formal financial system. It was initially started as a pilot project to link 500 SHGs with banks wherein the banks will provide access to the group members for their savings on regular basis while also providing credit to the group to meet the emerging credit requirements of its members in proportion to the savings of the group. Since then, the program has become one of the most cost effective and fastest growing microfinance initiatives in the world, enabling 97 million poor households to have access to banking system (NABARD, 2011).

The SBLP has been accepted as an effective tool for inclusive growth by extending various financial services to the hitherto excluded category of poor rural households. According to Tripathy (2012), the linkage program combines the flexibility, sensitivity and responsiveness of the informal credit system with the technical and administrative capabilities and financial resources of the formal financial sector. This process of financing relies heavily on the collective strength of the poor backed by their effective social mobilization, which contributes to an overall empowering process at the end-beneficiary level.

SHG represents a unique approach of financial intermediation. The approach combines access to low-cost financial services with a process of self-management and development for SHG members (Arunachalam, 2008). Mostly, SHGs are an informal association of up to 20 women, formed and supported usually by NGOs or government agencies, who save small amount regularly and then link them to the bank. The group borrows from the bank using its group saving and the group guarantees as for the collateral.

The program has grown exponentially during the last two decades, and more than 97.4million households in rural belt have access to savings regularly via 7.426 million

SHGs are assisted by various banks, of which around 48 lakh are credit linked. Nearly 12 lakh SHGs were extended fresh loans to the extent of over Rs. 14500 crores during 2010-11 with a total loan outstanding to SHGs reaching over Rs. 31,220 crores. More than 80 percent beneficiaries of this program are women (NABARD, 2011). NABARD (2011) estimated that 53.4 percent of the total households are members of SBLP.

Despite the huge success of the linkage program, the area of concern remains the spread of linkage program in India, which has been uneven with southern states accounting for the major chunk of credit linkages. However, the situation has started improving with other regions also showing growth trends in this movement.

Empirical studies show that the program indeed helped in the social and economic empowerment of rural folk, especially women, by up-scaling social capital significantly and delivering crucial financial services (Kelkar, 2008). However, despite such significant progress in facilitating social mobilization in rural areas, there are some concerns about the absence of regular inter-loaning activities within the SHGs, low access to formal finance, inappropriate product quality and inadequate product appraisal which have raised questions about the sustainability of this method of door-step financing (Tripathy, 2012).

Microfinance Institutions (MFI)-Bank Linkage Programme

MFIs act as an important channel in India for extending financial services to microfinance sector by raising resources from banks and other institutions and extending loans to joint liability group (JLG) or SHG members or individuals.

Primarily, four categories of MFIs are operating in India: They are registered either under the Societies Registration Act 1860 or the Indian Trust Act 1880 and are not for profit entities with wider development agenda.

- Cooperative MFIs: They are registered under the State Cooperative Societies Act or Mutually Aided Cooperative Societies Act or Multi State Cooperative Societies Act.
- NBFC MFIs: They are incorporated under Section 25 of Companies Act, 1956 and are working ‘not for profit’ but on sound business principles by complementing the efforts of the banking system to extend the outreach of microfinance and help in financial inclusion.
- NBFC MFIs incorporated under the Companies Act, 1956 and registered with RBI as NBFC and work on purely business lines laying emphasis on return on investment.
- Though most of the MFIs entered the microfinance sector much after the SBLP was well established, the turnover of these institutions grew on a much larger scale than SBLP because of their aggressive and innovative approach. Total loan disbursed to MFIs by all banks including SIDBI during 2010-11 was around Rs. 8500 crores, which recorded a decline of over 21 percent from the previous year on the aftermath of Andhra crisis. As on March 2011, total outstanding to these MFIs stands at Rs. 13,700 crores (NABARD, 2011).

According to Tripathy (2012), factors that led to the growth of MFIs are the incentives for penetration of banking into unbanked areas, lack of adequate formal banking in rural areas and unexplored lending potential in the rural area. However, of late, the functioning of these institutions (mostly ‘for profit’ NBFCs) is being subjected to closer scrutiny on account of alleged unethical business practices and questionable recovery practices (NABARD, 2011). Tripathy (2012) also highlighted the same issue and mentioned few malpractices adopted by MFIs. Due to the profit motive, some MFIs pursue unhealthy competition and provide credit support to borrowers without assessing the absorption capacity and sometimes follow multiple lending to the same borrower, thereby, affecting the creditworthiness of the borrowing clients.

Over the years, microfinance and its impact have received considerable attention, with most studies confirming a positive impact on the customers. However, Augsburg (2008) argues that the studies only consider the effect of credit whereas microfinance nowadays incorporates much more than just credit. In his study, Augsburg found that customers who choose to take extra services have a negative effect on their income as compared to customers who only avail themselves of credit. Similarly, Tripathy (2012) also argues that the impact of microfinance on the lives and livelihoods of borrowing clients have not been conclusive. While some researchers found that the microfinance is an effective tool for reducing rural poverty, others felt that micro-credit can be ineffective and sometimes counterproductive for clients trapped in chronic food insecurity with no asset base to protect themselves from the myriad web of shocks. While a study on microfinance intervention in India indicated negligible income impact on the beneficiaries, others found that fundamental peer pressure and social sanctions against defaulting borrowers in a borrowing group leads to bitterness among members, deterioration in social ties, and weakening of group cohesion. It has also been feared that the profit-seeking attitude of MFIs and commercialization of microfinance services in developing nations like India can undermine their goal of economic and social value creation in a rural set-up (Tripathy, 2012).

Similarly, there are contrasting views on the role played by RBI in the development of MFIs. According to Joshi (2011), the enabling provisions made by the RBI are major steps which created facilitating environment and led to the promotion and growth of microfinance sector in India. RBI advised banks to participate in the SBLP of NABARD whole heartedly and categorized microfinance under priority sector lending and lending to SHGs under the weaker section of the priority sector. On the other hand, Majumdar (2012) blames RBI for becoming insensitive to the problem of small borrowers. According to him, RBI becomes the co-conspirator in the metamorphosis of MFIs into glorified moneylenders charging usurious interest rates of 30 to 40 percent. RBI's blessings came in the form of public sector support to the sector.

According to Majumdar (2012), microfinance is something like subprime lending in India as the same incentives are operating here. The only difference is that it was securitization and derivatives that operated in the US while here it is priority sector lending by banks which is pushing in the money. He was especially critical of for-profit MFI and said that in the business of financial inclusion, there is enough space for not-for-profit MFIs but not for rouge MFIs.

Even with some limitations, microfinance service delivery models have great potential not only of enhancing credit facilities to the poor and the needy but also creating social entrepreneurs at the grassroots level. The Government of India needs to regulate MFI activities by introducing an appropriate formal statutory and regulatory framework. In this regard, the Microfinance Institutions (Development and Regulation) Bill 2011 was recently introduced to create a prudent and strong legal framework for all types of MFIs.

3.1.10 Business Correspondent/Business Facilitator Model

In January 2006, RBI permitted banks to utilize the services of various agencies as intermediaries in the form of its business facilitators and business correspondents for a better outreach of financial and banking services to the needy and deprived sections of the society. It was meant to augment the client base and thereby help to move towards 100 percent financial inclusion. This model is a paradigm shift in banking as it increases the scope of service providers to include non-traditional providers such as NGOs/SHGs, MFI and other civil society organizations, informal retailers, individuals, etc. It is also believed to have basic strengths that can provide a solution to the problem of ensuring spatial coverage at a low and affordable cost.

According to Bernanke (2006), community-based financial institutions can play an important role in minimizing neighborhood and information externalities and other types of market failure by developing financial products and services that better fit local needs. Again, the local organizations may also act as information brokers and facilitators.

The banking needs of the financially excluded people are restricted to the limited transaction of low value in nature. Operating a full-fledged rural branch is not considered a viable proposition due to high operational costs and limited business volumes initially. The BC/BF model is considered as the alternative viable business model to reach out to rural clients in far-flung areas with reduced costs (Karmakar et al, 2011).

According to Sa-Dhan (2012), commercial bank branch network in India covers only 5.2 percent of the 638,000 villages (with a population share of 72.2 percent) constituting 39 percent of the total branch network. The role of the business facilitator/business correspondent model has an added importance in the light of such a statistics.

As on March 2011, there were 80802 banking outlets opened through business correspondents in India, and the number of banking outlets in villages reached almost 115,000. Although the growth under this model is commendable and laudable, there is apprehension that the business correspondent system is not delivering the intended results. Today, the opening of the customer service points (CSP) and no-frills accounts have been taken as the indicators for financial inclusion. However, a study conducted by Sa-Dhan (2012) reveals that while new CSPs are getting opened at one end, the CSPs opened earlier are getting closed or becoming dormant on the other end. Even in NFAs, the dormant accounts ranged between 88-96 percent.

The most serious challenge the business correspondent system is facing is its commercial viability. It has been experienced that the banks are using business correspondents for opening no-frills accounts. The whole compensation structure is so meager that it will not be sustainable for business correspondents with a single product like NFA. For the business correspondent model to become viable, the range of services to be delivered through this channel should be enchased with additional services like small savings, overdraft facility, micro-credit, micro-insurance, small value remittances, a financial awareness program and so on (Karmakar et al, 2011; Sa-Dhan, 2012).

The study also noted that the CSPs had low morale due to delayed or low salary payments, lack of proper knowledge regarding the banking norms, absence of an effective grievance system, lack of participation in the process, frequent technical snags, frequent changes in rules, low cash holding capacity, etc.

According to Chakrabarty (2011), the business correspondent model can be successful if it supported by branches in the base areas, particularly in the aspects of documentation, cash management, and redressal of customer grievances. Hence, bricks and mortar structures should be available at every 2-3 km for providing support to around 8-10 business correspondents. These low-cost simple structures should meet the minimum infrastructure requirements for managing customer transactions. These structures can also serve as an efficient supervisory means for business correspondents to carry out operations.

The success of India's financial inclusion program depends to a large extent on the performance of business correspondent model. Still, more than 500000 villages are to be provided banking services, and this can only be done with the help of the business correspondent model. The issues which are hindering the real growth of business correspondent model need to be addressed before it gets too late.

Microfinance and other approaches like BC model have emerged as significant components of financial inclusion. The problem of financial exclusion in India in general and Assam, in particular, is so vast that it needs joint efforts by all the stakeholders, be it formal financial institutions like banks or semi-formal institutions like MFIs. In addition, there is enough space for all the stakeholders to flourish.

3.1.11 Pradhan Mantri Jan Dhan Yojana (PMJDY)

Given the massive drawbacks of the previous programs, the Government of India has introduced a plan for financial inclusion and named it as "Pradhan Mantri Jan Dhan Yojana" (PMJDY). The program was announced and inaugurated on 15th August 2014 and has started operation on 28th August 2014. The initial target was to open bank accounts amounting to 7.5 crores by January 2015, but most of the banks have overachieved the target and have been able to open 13 crore bank accounts within the stipulated deadline. PMJDY is a technology-based financial inclusion program implemented by the government. Unlike other financial inclusion programs, the objective here is not to cover the rural population only. It covers both rural as well as urban population. The push-based strategy helped to move things ahead. The major challenges as faced by the previous programs were to keep the accounts active. To deal with this issue, the government has decided to link transfer of various direct benefits social welfare schemes with the accounts. As the target is not to cover any specific geographical area, the system is able to capture households who do not have bank accounts or access to any kind of financial services. The wide application of technology like RuPay debit card, mobile banking facilities, and e – KYC also helped the process to go smoothly. As there were monitoring problems in the previous programs, these facilities help to track the implementation properly.

3.2 Conclusion

This chapter attempted to outline the initiatives undertaken by the Government of India and the RBI since Independence. Although some of the initiatives towards financial inclusion in India started before Independence, the efforts have intensified since the late 1960s. Only since 2005, ‘financial inclusion’ was explicitly made as a major policy objective with a renewed emphasis on the objectives of bringing financially excluded people within the fold of the banking sector. A multi-pronged strategy has been adopted in India to promote financial inclusion. The chapter also looked into the various new forms of financial service providers and analyzed its role in the promotion of financial inclusion.

Chapter- 4

4.1 Accessibility to Financial Services

4.1.1 Introduction

The World Bank Report (2010) has highlighted the key role played by access to finances, as also emphasized by the modern development theories. The lack of access to finances results in persistent income inequality and slower economic growth. Having accessibility to finance helps to reduce inequality and equalize opportunities. It also directly contributes to increased income and reduced vulnerability for the poor. The concept of financial inclusion refers to the setting up of a financial system that can provide service to numerous people in a country. In India, policymakers have addressed the various complex factors that contribute to financial exclusion and have recognized that there is a requirement of different providers, products, and technologies to promote financial inclusion. Moreover, the factors are also a reflection of the geographic, political, socio-economic, and cultural conditions to access financial services in the country.

The purpose of financial markets and institutions includes mitigating the effects of transaction costs and information asymmetries that hampers the investment and direct pooling of society's savings. These institutions provide payment services and mobilize savings facilitating the sale and exchange of goods and services. They also generate and analyze information on investors and investment projects that guides them in fund allocation, monitoring investment, and exerting corporate governance. The processed information also helps in diversifying, transforming, and managing risk. The financial institutions enable the market participants to avail the best investments by directing funds accordingly. This boosts growth, improves income distribution, and reduces poverty. However, when these institutions fail to function, there are missed growth opportunities, persisting inequalities, and costly crises.

Access to finance denotes the ability of enterprises and individuals to avail financial services, including deposit, credit, insurance, payment, and other risk management services. Evidence shows that access to finance facilitates growth for enterprises by allowing credit for their existing and new businesses. It intensifies competition, accelerates economic growth, and boosts demand for labor. This will also result in an increase in the incomes of individuals in the low-income group, consequently decreasing income inequality and reducing poverty. Limited access to finance can restrict the range of services and credits available to households and enterprises. Consequently, individuals belonging to low-income groups and small enterprises would have to use their personal wealth or internal resources for their education and businesses. This affects and limits their full potential and leads to diminished growth and persistent inequality. It should be noted that financial access varies greatly among countries and ranges from about 5 percent of the adult population in Papua New Guinea and Tanzania to 100 percent in the Netherlands (see Demirgüç-Kunt, Beck, &Honohan, 2008, pp. 190–191).

4.1.2 Defining and measuring access to financial services

The measurement of financial access can strengthen the association between empirical evidence and theory. The main proxy variables for measuring financial access are the number of bank branches per 100,000 adults, number of bank accounts per 1,000 adults, and the percentage of firms with credit (large and small firms). The measurement of financial access for financial markets requires determining market concentration because high concentration denotes higher penetration difficulties for newer and smaller firms. Other factors are the traded value outside of top 10 largest companies, percentage of market capitalization government bond yields (3 month and 10 years), ratio of domestic to total debt securities, ratio of private to total debt securities (domestic), and the ratio of new corporate bond issues to GDP.

Financial access should be differentiated from the actual usage of financial services because not using financial access can be either voluntary or involuntary. Although having access to financial services, voluntary non-users of financial services do not avail this access either because they do not require the offered services or have cultural, religious or other restraints. In contrast, involuntary non-users of financial services desire to use the offered services but lack access to them due to various reasons. First, these users may be unbankable due to their low income that may not be profitable commercially for financial institutions. Second, they may face social, religious or ethnic discriminations. Third, they may be associated contractual and informational networks (such as limited information from credit registries or high collateral requirements) that prevent them from being commercially served. Finally, the features or price of financial services may be inappropriate for these non-users.

4.1.3 Barriers and strategies for financial inclusion

There are many barriers affecting access to financial services. Some of these barriers are lack of money, unemployment, irregular income, costs including high interest rates, distance and low connectivity, ownership of an account by a family member, lack of trust, lower education or financial literacy, documentation constraints, and low availability of financial providers. It is important to identify the barriers and determinants of financial inclusion, as they can be helpful in designing policy responses.

The new and innovative business models address the barriers affecting access to financial services and create new opportunities of business. Cooperative, state-owned, community and development banks have played the role of facilitating financial access to a wide spectrum of untapped population and income groups. These banks–for example, the Brazilian Development Bank and cooperative models in China, northern Italy, Germany and Switzerland–have promoted competition, supported productive investment, and contributed to proven resilience in compensating credit crunch. The advancement in payment technologies and the availability of banking correspondents have resulted in the combined use of banking, retail, and postal networks. This has led to expanded coverage and reduced costs in financial services. The banking correspondent models include fully-fledged banks, cash merchants, etc. associated with proportional adjustments in regulation. It is estimated that postal systems are being availed by 1 billion people in over 50 countries for financial services. This is illustrated in Brazil, where the postal bank has successfully opened 10 million accounts in 10 years,.

The physical and economic barriers to financial access can be reduced with the use of new technologies that enable readiness of infrastructure such as identification and authentication systems and interconnection platforms. New payment systems and networks, including mobile money schemes, offer different financial services with increase coverage and lower infrastructural costs, and are generally more youth-friendly and gender-neutral. A common example of mobile money scheme is M-PESA (**M** for mobile, Pesa is Swahili for money) that was implemented in Kenya; it had 15 million active customers at the end of March 2012. Moreover, this digital dimension can also have other contributions to financial inclusion. For instance, it can provide information enabling the assessment of credit risk; facilitate remittances by allowing transfer of small amounts, and increased willingness to save by making data analytics on customers' financial lives available. Based on the specific regulatory environment and a critical mass of users, mobile money schemes are not appropriate for financial inclusion due to limited operations. Operations are limited by low levels of liquidity in network agents, and some are less suitable for the elderly and people with disabilities.

The regulators of digital financial services should focus on promoting network interoperability, licensing for a level playing field, enabling innovation without prescribing a specific bank or telecom-centric model, and addressing information security risks. It is important for the different regulators to maintain coordination; this applies to the interaction between telecom and financial regulators and also between regulators belonging to different countries. It is also important to standardize the systems used in digital financial services and businesses because the use of different standards can result in barriers to the proliferation of technology requiring economies of scale. Decisions pertaining to technology convergence or coexistence should ensure that standards do not prevent operators in developing country from participating and serving their populations.

The central role of public policy mix and regulatory frameworks

It should also be noted that financial services have market failures. Inadequate regulation, information asymmetry or weak protection laws for consumers could result in undersupply of credit for certain population groups on one side and oversupply and indebtedness for others on the other side. Inaccurate competition could lead to raising costs, market concentration, and market segmentation; it may also result in undersupply in rural areas, affecting the poor and the economy in general. Moreover, undiversified financial sectors can be affected by external shocks that can disrupt stable supply. These failures indicate the importance of having feasible regulations for promoting universal access, effective financial inclusion, and competition. For instance, microfinance provides financial services to the underserved segments, but they are associated with risks of over indebtedness and microcredit oversupply.

It is necessary for governments to develop a sound regulatory and institutional framework that facilitates efficient and equitable markets and affordable access to financial services, and to shift from principles to specific actions. Policies on financial inclusion should include the creation of a robust institutional environment with adequate infrastructure, including energy and communications. It should be based on evidence and should promote innovation in technologies and the collection and analysis of data. It should also promote consumer protection and competition. Governments should also focus on direct measures, such as mandatory requirements and subsidies, for facilitating universal access. These measures can include mandatory services such as offering basic or low-fee accounts like the no-frills accounts in India, exclusion from certain documentation requirements and other general service obligations. Many of these financial inclusion initiatives can be supported by applying regulation in a proportionate manner such that it defines differentiated requirements to address different needs. In the Philippines, requirements on capital, risk management, liquidity and others were applied proportionately to non-bank providers, along with limits on transactions and ring fencing of e-money operations. Policies should promote demand via availability of information and financial literacy, by using the standards for disclosure and transparency. In this regard, the RBI promotes the payment of DBTs, including pensions, through transfer via electronic mediums.

The regulatory framework should address financial inclusion along with financial stability and integrity. Research is needed for identifying possible synergies or compromises between these regulatory objectives. Trade liberalization also impacts the regulatory framework of financial inclusion, particularly universal access. It should be noted that the effective regulation of foreign firms has led to their substantial presence in domestic financial markets, which lead to “cherry picking”. Therefore, to promote financial inclusion and stability, the trade liberalization efforts should be coordinated appropriately with enough domestic regulations. Efforts must be made with a coherent approach to integrate and ensure amongst the multilateral regulations, within the ambit of Doha Round. Simultaneous liberalization mechanisms like Regional Trade Agreements RTAs and involve major regional agreements with significance on the regulation within domestic periphery.

With respect to credit services, global efforts should focus on directing financial resources to the sustainable development of economies both in developing and developed countries. This is supported by recent examples, such as the new strong relationship between shareholders’ payouts and corporate borrowing in the United States, and higher inter financial credits than financing used by the real economy in the Euro area. Financial inclusion efforts need consider the poor, women, and youth. Policy and regulatory frameworks should focus on higher value-added economic activities in addition to other economic activities. In this regard, it is essential that the decision makers must ensure that the financial inclusion policies and macroeconomic, trade, industrial, and other policies should align financial services, including credit, savings, insurance and other services, in support of the real economy and the Sustainable Development Goals (SDGs) post 2015.

4.2 Review of Literature

Financial inclusion is a continuum such that the opening of a bank account does not shift the status of an individual from being 'excluded' to 'included'. In this context,

Regan and Paxton 2003 noted that in addition to providing access to financial products and services, financial inclusion also includes the quality of engagement with those products and services and the requirement for individuals to learn skills and develop confidence to make informed decisions.

Leyshon, A. and Thrift, N. (1995) described exclusion from financial products and services(Financial Exclusion) as the processes limiting a class of individuals and communities by depriving them of the benefits of formally established system of finance (Financial System)**.** In general, people living in rural areas and remote areas are financially excluded. They also denoted that remote physical locations serve as barriers to accessing of financial products and services.

Levine Ross (1997) observed that countries having more active stock markets and larger banks tend to grow faster irrespective of other factors underlying economic growth. Firms and industries and firms that use external financial services expand unevenly with greater pace where the financial services are adequate than the nations that have inferior and under-developed structure of financial institutions. I addition, there is a large relationship between growth and the initial level of financial development.

Former United Nation Secretary, General Kofi Annan (2003) believed that the majority of the poor people worldwide lacked access to sustainable financial services such as saving and credit or insurance. He also stated that it is essential to address the constraints that cause financial exclusion.

Pramod, K.M. (2004) examined the factors that restrict the rural poor from accessing formal institutional credit. They found that there is a disparity between the urban banks and its borrowers regarding the purpose and use of loans and the borrower's willingness to repay. Thus, private informal moneylenders have an advantage in this regard, as they live near the borrowers and are aware of their traits.

Leeladhar (2005) observed that there are still sections of the society, particularly the underprivileged population, that are yet to come under the folds of formal financial institutions. It should also be noted that significant improvements have been in all aspects of financial profitability, viability, and competitiveness. However, the RBI policy of financial inclusion in 2003 was a bold initiative to address this issue of targeting the rural population. In 2008, the Rangarajan Committee on Financial Inclusion observed that financial inclusion was essential for sustaining and accelerating growth momentum. For this, the committee proposed multi-pronged strategies including the revitalization of the RRBs and cooperatives, establishment of a national mission on financial inclusion, and initiatives such as medium of MFI, linking banks with SHGs and facilitators for Business and Bankers Business Correspondents.

Government of Kerala (2005) revealed that there are about 5,700 registered moneylenders in Kerala and about 6,000 unregistered firms. Thus, their total number is estimated at 12,000, which denotes wider accessibility to the customers and the consequent high penetration rate. This proportion is relatively greater when compared to number of bank branches for financial institutions established by government. It is estimated that moneylenders cover about 5,590 individuals as against 9,431 per branch of commercial banks.

Andrew, L. et al. (2006) asserted that individuals or households who had bad experiences or faced rejection from formal financial institutions are likely to exclude themselves from financial services and products.

Moreno, L. A. (2007) observed that when inculcated the sense of belongingness amongst the population it becomes proactive in the economic process tends to mix along with the society, thereby contributes to with a sense of stewardship.

Chandrasekhar (2007) studied the different levels of financial inclusion and exclusion. At one extreme, the customers have access to a variety of financial products and services at their disposal and are better cared by the financial institutions. On the other end, the individuals are financially excluded and have no access to financial products and services. Between the two extremes, there exists another group of population who have limited access to financial products and services.

Carbo et al. (2007) describes financial exclusion as selectively neglecting the reach of financial products and services to the communities that are deprived due to income disparity of locational disadvantages. It may take any shape for excluding certain people from the benefits of financial services, this even indicates social deprivation.

Jeromi, P.D. (2007) explores the role of moneylenders in Kerala outperforming and spread with better reach than the formal systems for penetrating financial services and products. Most of them being registered do have adequate share to influence the decisions of the borrowers and exploit the marginalized communities. Hence, the mere presence of the formal financial institutions cannot make a difference in the economic upheaval. The emphasis on the utilization and affordability of financial services offered play a greater role.

Beck et al. (2008) emphasized on financial exclusion has recently been considered as a barrier to economic development and that necessitates the need for building inclusive financial systems. Besides banking institutions, insurance companies too would have to target the customers in the Bottom of the Pyramid to achieve inclusive banking and inclusive growth.

Vijay Kelkar (2008) asserted that financial inclusion should be considered as a business strategy for growth. It can reduce farmers' debts and offer better risk management. Enhanced financial inclusion can provide better access to educational loans to different sections of the society and will facilitate entrepreneurship and grass-root innovations.

Reserve Bank of India (2008) insists that financial exclusion means certain strata of demography experience poor accessibility to safe, well tailored, cheap and reliable products and services of finance by way of formal financial system. Hence, the objective of financial inclusion is to ensure that a spectrum of financial services is made accessible and available at affordable prices to all individuals. The RBI found that the demand side reasons for financial exclusion were the lack of awareness, poverty, low income, and illiteracy; the supply side reasons were the distance from branch, cumbersome documentation and procedures, branch timings, unsuitable products, staff attitudes, language, etc. The RBI also found that these constraints led the people to rely on informal credit sources due to their easier availability, in spite of the high credit cost. This resulted in higher costs and a compromised standard of living. Informal credit increased the risk of exposure to unregulated and unethical providers and increased vulnerability to uninsured risks. The RBI concluded that the banks are also required to create awareness about their financial products and services, offer advice for management of funds, offer debt counseling, etc. Banking services, being a public good, should also aim at providing service to the entire population.

World Bank (2008) reported that the absence of an inclusive formal system of finance has led the small entrepreneurs and poor individuals to use informal financial sources for investments because of easy accessibility and timely availability but a greater interest burden. In such cases, financial inclusion can come to the rescue. To achieve financial inclusion in India that has a large diversified population, it is essential for the formal financial system to achieve high penetration among the population, particularly the rural and unorganized sectors**.**

Bhave, C.B. (2009) observed that inclusion indicates giving people a choice and the power to make their own decisions. Financial inclusion is something that needs immediate efforts rather than waits and see approach.

Vijay Mahajan and Suman Laskar (2009) attempted to design model for assessing financial access, whereby they considered the population of India that is deprived of access to financial services. They opined that the surveys conducted by the

All India Debt and Investment survey suffers from limitations as it is conducted once in a decade . However, the survey results are reported under the banner of IND-FLINT abbreviation stands for Indian Index of Financial Literacy, Inclusion and Transactions. The researchers included three dimensions namely one for inclusion of financial services and products, literacy of financial services and products, among the population, transactions of financial nature. This measures proximity of the infrastructure of financial products and services, probability of use based on the terms and conditions associated expenses etc. The parameter on the literacy of financial products and services available and its operational knowledge among the deprived communities is captured. The transaction frequency of the use of financial services and products is covers the frequency of use of financial services, types of products the people are aware about, in values and volumes that were found in records and reported from time to time.

Most of the above studies used financial depth measures (amount of finance) instead of the actual outreach or access measures (number of users). These studies mainly addressed the availability and accessibility aspects by using aggregate banking data that includes information only for service provided by banks or other service providers. This information is the supply side information, which is partial in nature. It has certain disadvantages: it does not differentiate between business and individual accounts, or between individuals having multiple accounts; it also does not differentiate between the timeliness and adequacy of loan amount or information about informal service.

Sameer Kochaar (2009) remarked that financial exclusion can be addressed holistically by ensuring that financial services that are accessible to everyone can be listed as(i)No-frill banking account, (ii) Savings product tailored for the deprived people underpinning their income profile, (iii) Facilities for transfer of money (iv)Petty loans and facility of overdraft for transactional motives (v)Insurance to suit the Micro needs, and (vi) and pensions at their Micro-levels.

Chakraborthy, K.C. (2009) commented that inclusive growth goes hand-in-hand with financial inclusion. He further stated that financial inclusion enables people to have access to financial services from formal banking institutions and not from small money lenders. This step results in a transparent, fair and cost-effective access to financial services.

Nageswara Rao (2010) observed that the current economy aims to ensure growth with respect to distributive justice and democratic principles. Empowerment of people determines their capacity to generate income. Spatial disparity in facilitating the financial infrastructure may restrict the growth to the spatial limits thereby causing disparity and deprival.

Subha Rao (2010) opines that the degree of accessibility to services and products in financial sector widens the arena for economic growth.

Kelkar, V. (2010) studied financial inclusion from a broader perspective. He noted that the promotion of financial inclusion would result in modernization in farming and use of inputs. This can result in inclusive growth that bridges the gap between urban and rural areas. He also argued that financial inclusion could make it easy to avail educational loan, which will then facilitate innovations and entrepreneurship in rural India.

Chandan Kumar and Srijith Misra (2010) observed that finance is of great importance in an economy. The development of the financial system and the growth of the real sector have a two-way relationship. Developed financial system promotes real sector growth, while the growing economy's demand facilitates the financial sector via banking system/institutions**.**

Nitin Kumar (2012) pondered upon the objectives of mission on financial inclusion highlighting its significance for the developing nations with emerging economy like that of India. The study observed that financial exclusion is severe in spatially remote locations. Considering the data set for the period from 1990 to 2008, applied the Ordinary Least Square (OLS), an assessment of disparity between the urban and rural access to financial services and products was made. Various control variables, such as the size of the bank group, ownership, etc. have been included to understand the role of different institutional and demographic factors. Bank group size, as captured by assets and ownership directly influence the number of operating branches.

Ramesh Pandi, G. et al. (2012) mentioned about financial services accessibility by way of SCBs . The survey made the following revelations: a) the Northeastern India, Central India, and the eastern India have greater disparity of parameters observed, b) there is need for spread of tentacles of financial inclusion measures in the regions mentioned above to ensure inclusive economic growth and balanced economic development of the country as a whole.

Singh (2012) found that with an increase in the level of discretionary income, there will be decline in the poverty, people belonging to low income group usually become the feeder for the financial system. The correlation between the discretionary sources of income and the poverty alleviation is well captured as the negative one by the researcher. It has implication on the fresh feeders to the financial institutions in terms of new bank account holders and users of the services and products offered by the bank and other financial institutions.

Financial service providers can study the consumers and learn new business models to approach them. Recently, entrepreneurship has become common across the country, including urban, semi-urban and rural areas. This should be financed and taken care of. With the increase in liberalization and higher economic growth, the banking sector was set to expand the financing pattern of economic activities throughout the country. Financial inclusion can strengthen financial dependence and expand credit delivery by providing the required resources to the banks. He concluded that financial inclusion would result in financial development that would accelerate economic growth in the country.

Thapar (2013) opined that there are inadequate attempts towards the inclusion of people by way of addressing the stewardship of financial system to the people of Punjab.

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Federal Ministry for Economic Cooperation and Development's Report (2013) viewed that women could be financially included only when they have easy ingress to different financial products in a suitable manner. The services should be such that they cater to their household needs and small-scale business. The report stated that this can help women earn income or control assets outside the household while improving their opportunities. It also increases their influence over money and other resources and promotes their bargaining power within and outside the family. By having access to insurance service, they can reduce the risks associated with their day-to-day business such as losses in business or unexpected expenses.

4.2.1 Research Gap

The review of the above literature reveals a significant research gap and a lack of appropriate input. The review of the above literature reveals a significant research gap and a lack of appropriate input. It is argued that there should unbiased accessibility to banking services to all individuals without any discrimination as banking services serve as public good. Poor people expect the financial system to offer protection and safety of deposits, suitable operating time, low transaction costs, least paper work, quick and easy admittance to credit and other products, regular deposits, counting remittances appropriate to their income and consumption. Given this background, there is no research on accessibility to financial services in Sikkim.

4.3 Analysis and Results

Table 4. 1:Percentage of Households adhering to accessibility measures across the Demographic attributes

Types of Accounts Held	Districts				Education			Age			Family Size			Total
	North	East	South	West	Below High School	High School to Higher Secondary School	Above Higher Secondary School	Up to 43	43 to 50	Above 50	Small	Medium	Large	
Bank Account	100 (100)	134 (100)	122 (97)	121 (97)	162 (98)	261 (98)	54 (98)	168 (97)	162 (98)	147 (100)	177 (99)	211 (99)	89 (97)	477 (98)
Saving Account	94 (94)	117 (87)	106 (84)	99 (79)	151 (92)	218 (82)	47 (85)	143 (83)	150 (91)	123 (84)	160 (89)	185 (86)	71 (77)	416 (86)
Current account	2 (2)	25 (19)	20 (16)	32 (26)	23 (14)	47 (18)	9 (16)	35 (20)	24 (15)	20 (14)	33 (18)	34 (16)	12 (13)	79 (16)
Pension Account	0 0	3 (2)	5 (4)	3 (2)	4 (2)	6 (2)	1 (2)	1 (1)	2 (1)	8 (5)	4 (2)	4 (2)	3 (3)	11 (2)
Fixed Deposit Account	4 (4)	12 (9)	7 (6)	7 (6)	11 (7)	18 (7)	1 (2)	14 (8)	8 (5)	8 (5)	16 (9)	6 (3)	8 (9)	30 (6)
Salary Account	19 (19)	19 (14)	11 (9)	4 (3)	17 (10)	32 (12)	4 (7)	20 (12)	20 (12)	13 (9)	21 (12)	30 (14)	2 (2)	53 (11)
Loan Account	26 (5)	50 (10)	50 (10)	37 (8)	51 (11)	92 (19)	20 (4)	60 (12)	62 (13)	41 (8)	63 (13)	81 (17)	19 (4)	163 (34)
Business Correspondent (BCs)	11 (2)	13 (3)	24 (5)	30 (6)	31 (6)	39 (8)	8 (2)	27 (6)	29 (6)	22 (5)	29 (6)	34 (7)	15 (3)	78 (16)
Electronic card	81 (17)	114 (24)	101 (21)	102 (21)	130 (27)	222 (46)	46 (9)	154 (32)	136 (28)	108 (22)	152 (31)	173 (36)	73 (15)	398 (82)
Intention to avail Insurance policy	35 (7)	86 (18)	86 (18)	91 (19)	89 (18)	169 (35)	40 (8)	120 (25)	91 (19)	87 (18)	112 (23)	135 (28)	51 (11)	298 (61)

Source: Primary Data
Figures in the brackets indicate the percentage of reported numbers to the total household respondent.

Table 4. 2: Results of Chi Square Test between the measures of access to financial services and the Social characteristics of the respondent households

Types of accounts held	Districts - wise	Education group - wise	Age group - wise	Family size group -wise
Degree of freedom	3	2	2	2
Bank Account	7.58 (0.06)	0.07 (0.97)	4.14 (0.13)	1.87 (0.39)
Saving Account	10.51 (0.01)	7.14 (0.03)	5.47 (0.07)	7.57 (0.02)
Current Account	23.49 (0.00)	1.08 (0.58)	3.12 (0.21)	1.34 (0.51)
Pension Account	3.97 (0.26)	0.07 (0.97)	9.74 (0.01)	0.56 (0.75)
Fixed Deposit Account	2.76 (0.43)	2.04 (0.36)	1.73 (0.42)	7.55 (0.02)
Salary Account	16.44 (0.00)	1.18 (0.55)	0.97 (0.62)	9.46 (0.01)
Loan Account	6.40 (0.09)	0.87 (0.65)	3.41 (0.18)	8.85 (0.01)
Business Correspondent	12.58 (0.01)	1.36 (0.51)	0.44 (0.80)	0.01 (0.99)
Electronic Card	1.23 (0.75)	1.82 (0.40)	13.07 (0.00)	1.67 (0.43)
Intention to avail Insurance policy	39.21 (0.00)	7.49 (0.02)	8.48 (0.01)	1.74 (0.42)

Source: Primary data,
Figures in the brackets indicate the respective level of significance (LoS).
Table values of χ^2 *at 5% loS for 3df is* ***7.81****, and for 2df is****5.99****.*

The percentage of respondents presently availing the services were computed to study the accessibility to finance by household respondents in Sikkim across various districts and demographic variables such as educational qualification, age and the family size of the household (Ref-Table 4.1). The $\chi 2$ test of homogeneity is conducted to identify the homogeneity of the accessibility to services across the demographic characteristics (Ref- Table 4.2).

When analyzed district-wise, it was found that the percentage of households having savings account, current account, loan account, salary account and intention to avail insurance policy and business correspondents vary significantly.

The percentage of savings account holders is the highest at 94% in the North Sikkim district. In contrast, the West Sikkim district has the lowest percentage of savings account holders at 79%. The variation between the South Sikkim and the East Sikkim districts is mediocre in range. The overall percentage is at 86%, which is due to the shortcomings in West Sikkim. North Sikkim has the highest contribution to this percentage value. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that West Sikkim followed by South Sikkim are in dearth of services.

The percentage of current account holders in West Sikkim district is the maximum at 26%, and in North Sikkim district, it is the lowest at 2%. The variation between the East Sikkim and the South Sikkim districts is mediocre in range. The overall percentage is at 16%, which is due to the shortcomings in North Sikkim and is mostly contributed by West Sikkim. As in the case of savings accounts, it seems that North Sikkim followed by South Sikkim are in dearth of services.

The percentage of salary account holders is the maximum at 19% in North Sikkim district and the minimum at 3% in West Sikkim district. The variation between the East Sikkim and South Sikkim districts is mediocre in range. The overall percentage is at 11%, which is due to the shortcomings in West Sikkim and is mostly contributed by North

Sikkim. As in the above cases of savings and current accounts, it seems that West Sikkim followed by South Sikkim is in dearth of services.

The percentage of business correspondent holders is the highest at 6% in West Sikkim district and the lowest at 2% in North Sikkim. The variation between South Sikkim and East Sikkim districts is mediocre in range. The overall percentage is at 16%, which is due to the shortcomings in North Sikkim and is mostly contributed by West Sikkim. As in the above cases, it seems that South Sikkim followed by East Sikkim are in dearth of services.

The percentage of intention to avail insurance policy is the highest at 19% in West Sikkim district while it is the lowest at 7% in North Sikkim. The variation between East Sikkim and South Sikkim districts is mediocre in range. The overall percentage is at 61%, which is due to the shortcomings in North Sikkim and is mostly contributed by West Sikkim. As in the above-mentioned cases, it seems that the East, South, and North Sikkim districts are in dearth of services.

The percentages of bank account holders, pension account holders, fixed deposit account holders, loan account holders, and households with electronic cards are homogeneously distributed across the four districts.

Thus, with regard to district-wide penetration of savings account, current account, salary account, business correspondents, and intention to avail insurance policy, the Null Hypothesis stands rejected at 5% LoS.

When observed education group-wise, it is found that the percentage of households having savings account and intention to avail insurance policy vary significantly.

The percentage of savings account holders of those having education level below high school is the maximum with 92% and those with high school to higher secondary school level is the lowest at 82%. The variation of among those with education level above higher secondary school is mediocre in range. The overall percentage is at 86%, which is due to the shortcomings in high school to higher secondary school level and is mostly contributed by below high school level. It seems that the above high school to higher secondary school education level households is in dearth of services.

The percentage of intension to avail insurance policy of the high school to higher secondary school level householders is the maximum with 35% and is the minimum for above higher secondary school levels at 8% The variation among those holders with below high school level is the mediocre in range. The overall percentage is at 61%, which is due to the shortcomings of households of above higher secondary school and is mostly contributed by households with high school to higher secondary school level. It seems that the above higher secondary school is in dearth of services.

However, the percentages of bank account holders, current account holders, pension account holders, salary account holders, loan account holders, business correspondents, and households with electronic cards are homogeneously distributed across the households with respect to education level.

Thus, with regard to education group-wise penetration of savings account and intention to avail insurance policy, the Null Hypothesis stands rejected at 5% LoS.

When observed age group-wise, it was found that the percentage of households having pension account, electronic card, intention to avail insurance policy and business correspondent vary significantly.

The percentage of pension account holders aged above 50 years is the maximum at 5% while those in the age groups of up to 43 years and 43 to 50 years account for only 1% of the households. The variation between the up to 43 years and 43 to 50 years is mediocre in range. The overall percentage is at 2%, which is due to the shortcomings in the up to 43 years group and 43 to 50 years group with 1% and mostly contributed by above 50. It seems that the Up to 43 followed by the above 43 to 50 age groups is in dearth of the services.

The percentage of electronic cardholders in the age group of up to 43 years is the maximum at 32% and is the lowest at 22% in the age group of above 50 years. The variation in age group of 43 to 50 years is mediocre in range. The overall percentage is at 82%, which is due to the shortcomings in age group above 50 years and is mostly contributed by up to 43 years age group. It seems that the above 50 years age group followed by 43 to 50 years age group is in dearth of services.

The percentage of households with the intention to avail insurance policy in the age group of up to 43 years is the maximum at 25% while it is the lowest at 18% in the age group of above 50 years. The variation in the 43 to 50 years age group is mediocre in range. The overall percentage is at 61%, which is due to the shortcomings in age groups above 50 years and is mostly contributed by up to 43 years age group. It seems that the households in the above 50 years age group are in dearth of services.

However, the percentages of bank account holders, saving account holders, current account holders, fixed deposit account holders, salary account holders, loan account holders, and percentage of households with business correspondents are homogeneously distributed across the age groups.

Thus, with respect to district-wise penetration of pension accounts, electronic cards, and intention to avail insurance policy, the Null Hypothesis stands rejected at 5% LoS.

When analyzed with respect to family size, it was found that the percentage of households having savings account, fixed deposits, salary accounts, and loan accounts vary significantly.

The percentage of savings account holders with small family size is the maximum at 89%, and it is the lowest at 77% for large family size. The variation of the medium family size-wise is mediocre in range. The overall percentage is at 86%, which is due to the shortcomings in the large family size and mostly contributed by small family size. It seems that the households with large family size are in dearth of services.

The percentage of fixed deposit account holders with small family and large family sizes is the maximum at 9% while those with medium family size have the lowest percentage at 3%.. The overall percentage is at 6%, which is due to the shortcomings in medium family size and is mostly contributed by small family and large family size. It seems that the households with medium family size are in dearth of services.

The percentage of salary account holders with medium family size is the maximum at 14% while those with large family size is the minimum at 2%. The variation in households with small family size is mediocre in range. The overall percentage is at 11%, which is due to the shortcomings in large family size group and is mostly contributed by medium family size group. It seems that the large family group is in dearth of services.

The percentage of loan account holders having medium family size is the maximum with 17% and those with large family size is the minimum at 4%. The variation in small family size group is mediocre in range. The overall percentage is at 34%, which is due to the shortcomings in large family size group and is mostly contributed by medium family group. It seems that the large family size group is in dearth of services.

However, the percentages of bank account holders, current account holders, pension account holders, business correspondents, electronic card holders and households with intension to avail insurance policy are homogeneously distributed across the age groups.

Thus, with regard to family size-wise penetration of saving accounts, fixed deposit account, salary account, and loan account, the Null Hypothesis stands rejected at 5% LoS.

Table 4. 3: Mean Rank, Chi-Square and Levels of Satisfaction regarding accessibility to Banking Services Across the Demographic characteristics of Household respondents in Sikkim

Demographic characteristics		df	Mean Rank	Chi- Square	Sig
Districts -wise	**North**	3	170.10	40.693	(.000)
	East	3	239.32		
	South	3	266.11		
	West	3	269.97		
Education group -wise	**Below High School**	2	243.07	2.450	(0.294)
	High School to Higher Secondary School	2	242.64		
	Above Higher Secondary School	2	213.55		
Age group (in years) -wise	**Up to 43**	2	246.27	1.392	(0.499)
	43 to 50	2	230.06		
	Above 50	2	242.23		
Family size -wise	**Small**	2	226.42	3.268	(0.195)
	Medium	2	250.23		

Demographic characteristics		df	Mean Rank	Chi- Square	Sig
	Large	2	239.96		

Source: Primary Data

The political geography has a significant impact on the level of banking services. In table- 4.3, it is observed from H test that North districts have the lowest mean rank when compared to the rest of the districts. It is also observed that West districts scored the highest mean rank. However, with marginal difference, the South district is at par with the West district. The South district is more evenly satisfied as compared to North and East districts.

Highly educated people in Sikkim have greater expectation from banking services; thus, theirs ranks in level of satisfaction is the lowest (Ref- Table4.3).On the contrary, people with low and mediocre level of school education have limited expectation from banking services. Thus, their rankings reveal relatively higher level of satisfaction for the given banking infrastructure. However, when analyzed (Ref- Table 4.3) education group -wise, it is found that there is no significant variation at 5% level of significance.

In the above table, the respondents up to 43 years and 43 to 50 years age groups have greater expectation from banking services. Thus, they have given poor rankings to the existing services. However, the respondents of medium and large age groups have assign higher scores to the existing banking services in Sikkim. The age group-wise analysis shows that there is no significant variation at 5% level of significance.

When analyzed with respect to family size, it is found that family size has an impact on the level of satisfaction of the banking services. The respondents with small and large families have greater expectations from the existing services. Thus, the exiting services are not scored well by these groups. However, the respondents of medium size family have assigned higher score to the services. There was no significant variation at 5% level of significance with respect to family size.

Table 4. 4 Levels of Satisfaction regarding accessibility to Business Correspondent Across the Districts

Districts -wise	Business Correspondent	Mean Rank	Chi- Square	Significance
North	**A deposits**	34.50	3.75	(0.29)
East		48.62		
South		36.02		
West		40.17		
North	**Visits of BC**	53.36	11.22	(0.01)
East		48.96		
South		32.81		
West		35.67		
North	**Guidance of BC**	45.09	1.78	(0.62)
East		42.38		
South		36.23		
West		38.82		
North	**Skill of BC for deposits**	49.23	4.62	(0.20)
East		38.85		
South		33.54		
West		40.98		
North	**Skill of BC for investment**	38.45	0.05	(1.00)
East		39.38		
South		39.42		
West		40.00		

Source: Primary Data, 2 degree of freedom

District-wise H test revealed that the level of satisfaction varies significantly only in case of visits of business correspondent in the village. The remaining parameters reveal insignificant variation in scoring ranks. The visits of business correspondents are ranked high in North district and lowest in remote South district. The geography of the region has implication even on the visits of business correspondents. Most of the business correspondents prefer East, South, and West districts to remote North district. For financial inclusion, it is essential for most business correspondents to visit remote places to improve financial services in the remote areas.

Table 4. 5 Levels of Satisfaction regarding accessibility to Business Correspondent Across the Education Group-Wise of Household respondents in Sikkim

Education Group - wise	Business Correspondent	Mean Rank	Chi-Square	Significance
Below High School	**A deposits**	39.34	0.42	(0.81)
High school to higher Secondary school		38.71		
Above Higher Secondary School		44.00		
Below High School	**Visits of BC**	40.39	1.29	(0.52)
High school to higher secondary school		40.41		
Above Higher Secondary School		31.63		
Below High School	**Guidance of BC**	44.23	2.88	(0.24)
High school to higher secondary school		36.69		
Above Higher Secondary School		34.88		
Below High School	**Skill of BC for deposits**	38.65	1.22	(0.54)
High school to higher secondary school		41.51		
Above Higher Secondary School		33.00		
Below High School	**Skill of BC for investment**	44.31	3.41	(0.18)
High school to higher secondary school		37.45		
Above Higher Secondary School		30.88		

Source: Primary Data, 2 degree of freedom

The education group-wise H test reveals that the highly educated people of the state of Sikkim have greater expectation from business correspondent services; thus, theirs ranks in level of satisfaction is the lowest (Ref- Table 4.4),On the contrary, people with low and mediocre level of school education have limited expectations from business correspondent services. Thus, their rankings reveal relatively higher level of satisfaction for given business correspondent services. However, when analyzed (Ref- Table4.4) education group -wise, it is found that there is no significant variation at 5% level of significance.

Table 4. 6 Levels of Satisfaction regarding accessibility to Business Correspondent Across the Age Group-Wise of Household respondents in Sikkim

Age Group -Wise	Business Correspondent	Mean Rank	Chi- Square	Significance
Up to 43	**A deposits**	44.19	2.26	(0.32)
43 to 50		35.84		
Above 50		38.57		
Up to 43	**Visits of BC**	43.19	2.16	(0.34)
43 to 50		35.22		
Above 50		40.61		
Up to 43	**Guidance of BC**	40.93	0.35	(0.84)
43 to 50		37.83		
Above 50		39.95		
Up to 43	**Skill of BC for deposits**	41.57	7.18	(0.03)
43 to 50		31.86		
Above 50		47.02		
Up to 43	**Skill of BC for investment**	41.96	0.86	(0.65)
43 to 50		36.84		
Above 50		39.98		

Source: Primary Data, 2 degree of freedom

When observed (Ref- Table 4.6) across the age groups, the H test reveals that the level of satisfaction varies significantly only in case of skill of BC for investment. The rest other parameters reveal insignificant variation in scoring ranks. The skill of BC for investment is ranked high in the above 50 years age group and the lowest in 43 to 50 years age group. For financial inclusion, it is essential that most of the business correspondents should get proper training for getting more skill information regarding investment.

Table 4. 7 Levels of Satisfaction regarding accessibility to Business Correspondent Across the Family Size -Wise of Household respondents in Sikkim

Family Size- Wise	Business Correspondent	Mean Rank	Chi- Square	Significance
Small	**Deposits**	36.60	2.42	(0.30)
Medium		38.74		
Large		46.83		
Small	**Visits of BC**	38.78	0.06	(0.97)
Medium		40.00		
Large		39.77		
Small	**Guidance of BC**	34.90	2.42	(0.30)
Medium		42.47		
Large		41.67		
Small	**Skill of BC for deposits**	40.43	0.10	(0.95)
Medium		39.06		
Large		38.70		
Small	**Skill of BC for investment**	39.38	0.24	(0.89)
Medium		40.53		
Large		37.40		

Source: Primary Data, 2 degree of freedom

When observed (Ref- Table 4.7) across the family size, the H test reveals that the all sizes of the family in Sikkim has greater expectations from business correspondent services. Thus, theirs ranks in level of satisfaction is the lowest (Ref- Table4.7).On the contrary, people with low and mediocre level of family sizes have limited expectation from business correspondent services. Thus, the ranks reveal relatively higher level of satisfaction for given business correspondent services. However, when (Ref- Table4.7) observed across family size, it is found that there is no significant variation at 5% level of significance.

Table 4. 8 Levels of Satisfaction regarding accessibility to Financial Services across the Demographic characteristics of Household respondents in Sikkim

Demographic Characteristics / Accessibility parameters		Banking services	Business's correspondent				
			Deposits	Visits	Guidance	Attraction of deposits	Attraction of investment
Districts	North	MLD	MLD	MLS	MLS	MLS	MLD
	East	MLS	MLS	MLS	MLS	MLS	MLD
	South	MLS	MLS	MLD	MLD	MLD	MLD
	West	MLS	MLS	MLD	MLS	MLS	MLD
Education Group	Below High School	MLS	MLS	MLD	MLS	MLS	MLS
	High school to higher Secondary school	MLS	MLS	MLS	MLD	MLS	MLD
	Above Higher Secondary School	MLD	MLS	MLD	MLD	MLD	MLD
Age Group	Up to 43	MLS	MLS	MLS	MLS	MLS	MLD
	43 to 50	MLD	MLS	MLD	MLD	MLD	MLD
	Above 50	MLS	MLS	MLD	MLS	MLS	MLD
Family Size	Small	MLD	MLS	MLD	MLD	MLS	MLD
	Medium	MLS	MLS	MLS	MLS	MLS	MLD
	Large	MLS	MLS	MLD	MLS	MLD	MLD
Total		MLS	MLS	MLS	MLD	MLS	MLS

The satisfaction of accessibility to various financial services was collected on 5-point Likert's Scale ranging from Very Strongly Dissatisfied (1) to Very Strongly Satisfied (5). To express precisely, the levels of satisfaction are classified as follows:

Mean Score	Level of satisfaction	
1-2	SLD	Strong Level of Dissatisfaction
2-3	MLD	Moderate Level of Dissatisfaction
3-4	MLS	Moderate Level of Satisfaction
4-5	SLS	Strong Level of Satisfaction

When Referred to Table 4.8, it is observed that household respondents of North Sikkim expressed moderate level of dissatisfaction. However, household respondents of South Sikkim, East Sikkim, and West Sikkim expressed moderate level of satisfaction. This amounts to the need for improving the overall banking services in all districts with special attention for North Sikkim.

With respect to the level of satisfaction of banking services when observed across the education level, it the highly educated people expressed moderate level of dissatisfaction. In contrast, the high school to higher secondary school pass-outs and the below high school level respondents expressed moderate level of satisfaction (Ref-Table4.8). Similarly, when the level of satisfaction across the age groups of household respondents was observed, the respondents in the age group of 43-50 years expressed moderate level of dissatisfaction, whereas the age group of below 43 years and above 50 years expressed moderate levels of satisfaction. However, there was a variation in the scale.

The level of satisfaction of banking services when observed across the family size of the households revealed that the respondents with small family size are moderately dissatisfied with the banking services. The medium and large family households are moderately satisfied.

In a nutshell, with respect to the overall levels of satisfaction about the banking services, there exists a moderate level of satisfaction.

However, the North Sikkim household respondents expressed moderate level of dissatisfaction that contradicts the moderate level of satisfaction expressed by the South, East and the West Sikkim respondent households.

For the parameter on financial services by the business correspondents on the frequency of visits, the South Sikkim and West Sikkim respondents expressed moderate level of dissatisfaction and the North and East Sikkim respondents expressed moderate level of satisfaction,

In Table 4.8, it is observed that household respondents of North Sikkim expressed moderate level of dissatisfaction. However, household respondents of South Sikkim, East Sikkim, and West Sikkim expressed moderate level of satisfaction. This indicates the need for improving the overall business correspondent deposits in all the districts with special attention for North Sikkim.

The level of satisfaction of business correspondent deposits when observed across the education level revealed that the highly educated people, the high school to higher secondary school pass-outs and the below high school level respondents expressed moderate level of satisfaction(Ref- Table4.8). Similarly, the household respondents in the age groups of up to 50 years, 43-50 years, and above 50 years expressed moderate level of satisfaction,

The level of satisfaction of business correspondent deposits when observed across the family size of the households revealed that all family sizes are moderately satisfied.

In a nutshell, the overall levels of satisfaction with respect to the business correspondent deposits revealed moderate level of satisfaction.

In Table -4.8, it is observed that household respondents of South and West Sikkim expressed moderate level of dissatisfaction. However, household respondents of North and East Sikkim expressed moderate level of satisfaction. This amounts to the need for improving the overall business correspondent visits in all the districts with special attention for South and West Sikkim.

The level of satisfaction of business correspondent visits when observed across the education level revealed that people with below high school and above higher secondary school level of education expressed moderate level of dissatisfaction. In contrast, high school to higher secondary school pass-outs level respondents expressed moderate level of satisfaction (Ref- Table 4.8). Similarly, when the level of satisfaction across the age groups of household respondents are analyzed, those aged 43-50 years and above 50 years expressed moderate level of dissatisfaction, whereas the age group of below 43 years expressed moderate levels of satisfaction even though the variation seems to appear in the scale.

The level of satisfaction of business correspondent visits when observed across the family size of the households, respondents with small and large family are moderately dissatisfied of the business correspondent visits, and the medium-level family size respondent households are moderately satisfied.

In a nutshell, it is observed that there exists moderate level of satisfaction regarding business correspondent visits.

However, district-wise analysis showed that the South and West Sikkim household respondents expressed moderate level of dissatisfaction that contradicts the moderate level of satisfaction expressed by the North and South Sikkim respondent households.

In Table 4.8, it is observed that household respondents of South Sikkim expressed moderate level of dissatisfaction. However, household respondents of North Sikkim, East

Sikkim, and West Sikkim expressed moderate level of satisfaction. This amounts to the need for improving the overall business correspondent guidance in all the districts with special attention to South Sikkim.

The level of satisfaction of business correspondent guidance when observed across the education level revealed that high school to higher secondary school and above higher secondary school qualified people expressed moderate level of dissatisfaction. In contrast, below high school level respondents expressed moderate level of satisfaction (Ref- Table4.8). Similarly, when the level of satisfaction is observed across the age groups of household respondents, those in all age group of 43-50 years expressed moderate level of dissatisfaction, whereas the age groups of below 43 years and above 50 years expressed moderate levels of satisfaction.

The level of satisfaction of business correspondent guidance when observed across the family size of the households revealed that respondents having small family size are moderately dissatisfied. In contrast, respondents with medium and large family sizes are moderately satisfied. In a nutshell, there exists a moderate level of dissatisfaction regarding the business correspondent guidance.

In Table 4.8, it is observed that household respondents of South Sikkim expressed moderate level of dissatisfaction. However, household respondents of North Sikkim, East Sikkim, and West Sikkim expressed moderate level of satisfaction. This indicates the need for improving the overall business correspondent attraction of deposits in all the districts with special attention to South Sikkim.

The level of satisfaction of business correspondent attraction of deposits when observed across the education level showed that those respondents having above higher secondary education expressed moderate level of dissatisfaction. Those having an education level of below high school and high to higher secondary school expressed moderate level of satisfaction (Ref- Table-4.8). Similarly, household respondents in the age group of 43-50 years expressed moderate level of dissatisfaction, whereas those aged below 43 years and above 50 years expressed moderate levels of satisfaction.

The level of satisfaction of business correspondent attraction of deposits when observed across the family size of the households showed that respondents with large family size are moderately dissatisfied. Respondents with small and medium family size are moderately satisfied. In a nutshell, there exists moderate level of satisfaction regarding business correspondent attraction of deposits.

In Table-4.8, it is observed that household respondents of North Sikkim, East Sikkim, South Sikkim, and West Sikkim expressed moderate level of dissatisfaction. This amounts to the need for improving the overall business correspondent attraction of investment in all the districts of Sikkim.

The level of satisfaction of business correspondent attraction of investment when observed across the education level showed that people with high school to higher secondary school and above higher secondary school education expressed moderate level of dissatisfaction. Those having an education level of below high school expressed moderate level of satisfaction (Ref- Table4.8). Similarly, the respondents in the age groups of below 43years, 43-50 years and above 50 years expressed moderate level of dissatisfaction, The level of satisfaction of business correspondent attraction of investment when observed across the family size of the households showed that respondents with small family size, medium family size and large family size are moderately dissatisfied.

In a nutshell, there exists moderate level of satisfaction regarding banking services.

However, district-wise analysis revealed that respondents in North Sikkim expressed moderate level of dissatisfaction that contradicts the moderate level of satisfaction expressed by the South, East and the West Sikkim respondent households.

With respect to the parameter on financial service by the business correspondent on the frequency of visits, the South Sikkim and West Sikkim respondents expressed moderate level of dissatisfaction and the North and East Sikkim respondents expressed moderate level of satisfaction.

4.4 Conclusion

To conclude it is noted from the above analysis on accessibility and service satisfaction the topography remains the key constraint followed by the family size and age group. The insurance services are not delivered to the satisfaction of the households, and the result is confirmed in their intentions that match their levels of satisfaction.

There is a sigh of dissatisfaction amongst all the respondents in sample, for the insurance agents' approach towards the product description and knowledge. Business correspondents have been successful vehicle of financial inclusion to the inaccessible areas for under educated people. Use of accounts for transaction purpose is mostly done in South and East district of Sikkim and the people from difficult areas have constraints to access to the facilities offered by the banks and insurance companies.

Insurance agents need a thorough training to share the product relevant information with the rural households so as to encourage the insurance penetration.

Chapter- 5

5.1 Affordability of Financial Services

5.1.1 Introduction

Provision of affordable financial services to vulnerable and poor groups and those living in deprived areas and lagging sectors is necessary for growth and to reduce poverty and income disparities. This can also help the economically and socially deprived people to better integrate into the economy and protect themselves from economic shocks (RBI, 2008). Prolonged financial exclusion can result in declined investments and may extend social tensions causing social exclusion. Thus, the government should offer affordable and appropriate financial products such that the excluded people can getincluded in the main segment. In addition, the payment services, including the e-payment options, should be affordable to all sections of the society.

'Affordable credit' is an important element of 'financial inclusion' (Collard and Kempson 2005; Collard 2007)'.From 2004 to 2011, affordable credit, along with debt advice and access to banking, was one of the three priorities for the UK government policy. The new Conservative–Liberal Democrat coalition government is still discussing how to strengthen and reform the UK consumer credit market so as to ensure its fitness for the future *Her Majesty's* (HM Treasury 2010). In the UK, around 9 million people do not have access to mainstream credit provided by building societies and banks. Moreover, in recent years, government initiatives like the Department of Work and Pensions (DWP) Growth Fund have failed to enable access to affordable credit to the same extent as access to a bank account (NEF 2009; Pomeroy 2011). The Office of Fair Trading (OFT) warns that issues related to high-cost credit can be resolved by making a radical change in the fundamental policies in the area. This will need much more involvement of the mainstream financial institutions in this market and/or considerable investment in social lending (OFT 2010).

Financial exclusion: It has gained increasing attention but is still a scenario in which limited people have access to formal financial services (Devlin 2005; Collard 2007)'.

Financial capability: It is about making decisions, managing money, and planning ahead (Atkinson *et al.* 2006).

Credit exclusion: Credit is a financial tool that allows to invest in goods or make expenditures, such as buying washing machine or furniture, that would otherwise not have been possible with the weekly or monthly money budget.. It allows for smooth consumption and protects against income shocks (European Commission 2008). However, there are some individuals who cannot access credit either because of its unavailability or because of unaffordability. This is terms as credit exclusion.

Affordable credit: Affordable credit refers to the appropriate and affordable credit available for people having low income (Collard and Kempson 2005).

It is difficult to measure 'credit exclusion' and/or the number of people excluded from credit because of the process and structure of the finance sector a discuss pertaining to personal preferences and choice; the latter is often termed as 'individual agency'. Usually, information related to credit applications, exclusions and rejections are not available in the public domain. However, the non-bank forms of credit, such as mail orders or moneylenders, advertise their services in magazines, newspapers, and the internet without credit checks. These moneylenders are usually more active within the community and social networks of the sub-prime market.

People with low incomes are often considered as high-risk and/or non-profitable customers by banks and building societies. Thus, these institutions may exclude such high-risk customers from the ‘mainstream’ credit loans. The preferences, practices and customs of individuals may also interfere with taking credit loans, and they themselves could opt out from such credits. Thus, the formal credit-assessment procedures may turn away low-income households, which will lead to their rejection. On one hand, there are formal processes of financial exclusion; while on the other hand, cultural traditions, practices, and customs govern the use of financial resources, which also reflects individual or household perspective. The measurement of credit exclusion at the country level is difficult due to the fundamental causes and the association between individual preferences and financial structures and processes.

The lack of availability and affordability of financial services for households with low-income is a major concern for social workers. Thus, this has led to the establishment of community development programs and programs providing support for basic needs to help the poor and rural individuals. This requires knowledge about the financial services being used by low-income families. Here, it should be noted that different financial services and credits available for poor families on one hand and the medium and upper-income families and communities on the other hand. This gap widely affects the social work practices to support and financially empower families.

It is widely known that the mainstream financial institutions prefer offering credits to non-poor and non-minority individuals and communities for gaining profits.

This often cause the minority and low-income populations to avail alternative financial services for cashing checks, paying bills and buying money orders. However, this alternative financial industry is costly and provides no incentives for investments and savings.

The issue of credits being costly is gaining prominence in policies in addition to the shift in social welfare policy. With the publication of Sherraden's (1991) "Assets and the Poor: A New American Welfare Policy" in 1991, there is an increased global interest in a new welfare theory of welfare based on assets. With the increasing financial divide between the rich and the poor in the United States, the building of assets is highly considered as an important policy step towards the empowerment of poor (Raheim, 1997; Shapiro& Wolff, 2001; Sherraden & Sherraden, 2001)".Within this context, asset building reduce poverty and increase financial stability. It also enables families to pursue education, purchase homes, and start small businesses.

Under asset building programs, the participants can avail financial capital to build assets by taking loans for education, car, and home. The Individual Development Account (IDA) program helps families to develop their assets and allows funds to be withdrawn only for specific asset-building purposes. Buying low-income homes has emerged as a family and social policy priority because most of the IDA participants opted for purchasing a home. Although the asset-development social policy has gained both domestic and international interest, only a few research works have emphasized on the financial credit required to purchase assets under this policy (Haveman, 2001).There is a requirement for more information to prevent families from using high-cost financial services and credit for purchasing and/or maintaining assets.

5.2 Review of Literature

Chattopadhay (2011) has developed the FII for all districts of West Bengal and for the major states of India.

Karmakar, et al (2011) evaluated the efforts of the financial inclusion in the 20 states with focus on the rural belt. Parameters at each outlet level such as amount of deposits per operative account, credit, and total deposit were applied.

Ramapal and Rupayanpal (2012) observed that the increase in the number of households using formal financial services does not indicate reduced inequality across income groups with respect to financial inclusion or improved inclusion of poor households to financial services.

Kempson, E. and Whyley, C. (1998) found that people belonging to low income groups, immigrants, ethnic minorities, senior citizens, etc. were excluded from the financial system in countries with better banking system. The inability to secure credit or being unemployed often resulted in economic impoverishment.

Kempson et al. (2000) studied how physical and geographical barriers led to financial exclusion under particular circumstances. They identified several dimensions of financial exclusion: (i) access exclusion, which refers to restricted access in the risk management process (by financial services providers); (ii) condition exclusion factors related to financial products that do not suit the needs of some sections of population; (iii) price exclusion, which refers to having access to financial products at unaffordable prices; (iv) marketing exclusion, which refers to the effective exclusion of some individuals from targeted marketing and sales; and (v) self-exclusion, which refers to people chosing not to opt for financial products and services for fear of being rejected by the service providers. In many countries, there are several non-poor individuals and entrepreneurs belonging to micro, small and medium business who have limited or no access to financial services.

Sinclair (2001) observed that multiple factors are responsible for financial exclusion. Some of the important factors are high charges, physical access, penalties, inappropriate or complicated conditions related to products, and perceived limitations of financial institutions for low-income people.

Namboodhiri, N.V. and Shiyani, R. L. (2001) realized that the formal financial sector has failed to effectively serve the rural population. Formal financial institutions lack the mechanism required to determine the credit requirements of the rural population and often fail to appropriately and correctly assess their credit demands.

Kofi Annan (2003) found that low-income households have limited accessibility to mainstream financial products such as low-cost credit, bank accounts, remittances and payment services, insurance facilities, financial advisory services, etc. He further stated that addressing the constraints responsible for financial exclusion is a major challenge.

Clare Louise Chambers (2004) identified that financially excluded people can also become socially excluded. When people suffer from multiple problems like low incomes, poor skills, unemployment, high crime environments, bad health, poor housing, and family breakdowns, they tend to exclude themselves from social gatherings and activities. This can be termed asocial exclusion.

Kempson, E. et al. (2004) highlighted that financial exclusion issues have recently gained much interest. An important debatable question is whether economic development leads to an all-inclusive financial system. It has been noted that developed countries like the US and the UK are not all inclusive and have certain categories of the population that are excluded from the formal financial systems.

Burgess and Pande (2005) examined the effect of a certain rule that enabled branch expansion of rural banks in India from 1977 to 1990. According to the rule, a bank could open a branch in an area with other existing bank branches only if it has also opened branches in four other areas with no bank branches. This resulted in a significant decline in rural poverty and an increase in non-agricultural output.

Priya and Srivastava (2005) stated numerous reasons why most Indians could not avail credit from formal financial institutions. They reasoned that the incapability to provide collateral and volatile income of the poor borrowers made the banks cautious of their repayment capacity. In addition, most of these borrowers avail credit facilities for smooth consumption rather than for business investments. In cases where the loans have been availed for entrepreneurial purposes, the borrowers often fail to make their business viable due to lack of required business or technical skills and limited market information. Moreover, the rural loans have high transaction costs due to the small size of the loans. Furthermore, illiteracy and large spread of such population makes them vulnerable to the risks associated with such loans..

Midgley, J. (2005) argued that one or a combination of factors may result in financial exclusion, few of them are prejudice causing spaces of discrimination in ecologies, unemployment, faith and cultural variation , parenthood, welfare in societal front, dependency, marital status, low-wage or level of household income, apprenticeship, old age, impairment, tenants, refugees and immigrants, ethnicity and communities.

Birkenmaier & Watson Tyuse, 2005 studied the influence of social policies on formal and alternative financial institutions. Various social policy forces have molded the financial services market toward offering costly products and services for families with low-income. Attention should be given to policies that create affordable financial services and those regulations and policies that aim to remove incentives for investing in communities having low income. Credit and other financial services significantly affect the lives of families with low income. Social workers can empower these families by educating them and by participating in the policy and service levels for such families. The “first-generation” of asset-development policy emphasized the accumulation of financial resources for building assets, implementation of asset-building programs, and evaluation of such programs. The “second generation” of such policy should focus on the families who use the financial market to create and manage assets. Asset advocates should be interested in policies and practices that aid asset affordability, asset accumulation, and post-purchase maintenance. In addition, public policy that influence credit availability and affordability should be advocated for improving the financial resources of households with low income. For long-term benefits from asset development, the financial details should be of importance.

The literature suggest different approaches for financial inclusion including the use of its various dimensions to its econometric estimation. Beck et al. (2006) was the first to measure the outreach of financial sector across countries. They designed new indicators (access, affordability, and eligibility)for deposits, loan and payment services of banks. However, it can be difficult to evaluate the overall progress by combining these elements.

Ravichandran and Alkhathlan(2009) focused on factors affecting access to financial services in India. From the demand side, they identified lack of alertness, social elimination, low incomes and property, and illiteracy as obstacles. From the supply side, they identified distance from the bank branch, awkward banking process, branch timings, over-prerequisite of documents for opening bank accounts, high transaction costs, verbal communication, unsuitable banking schemes, and attitudes of bank officials as barriers.

Sarma (2010) discussed five factors responsible for financial exclusion: (1) Access exclusion due to geography and-risk management of financial system, (2) Condition exclusion-due to conditions that are inappropriate for some people (3) Price exclusion due to non-affordability of financial services, (4) Marketing exclusion due to non-attractiveness of conducting business with certain groups within society (lending risk), and (5) Self exclusion, due to fear of refusal because of psychological barriers.

Shetty (2006) insisted that financial inclusion involves accessibility, affordability and their actual utilization. Financial inclusion can be achieved only when these three factors have been addressed appropriately. Thus, the ABC of financial inclusion is Advice, Banking and Credit.

Priya (2006) found that rural households have to face various restrictions when trying to borrow from banks. Firstly, banks require collateral that these people are unable to provide. Secondly, financial transactions are time consuming and expensive as they involve bribes of up to 20 percent of the loan amount. In addition, bank loans may take several weeks to get approved. Consequently, this has led to the rise of informal sources.

Pandey(2007) found that financial inclusion has become a topic of discussion due to the financial sector reform of the 1990s that neglected the rural community, including rural artisans, farm community and micro enterprises from credit**.**

Jefferis (2007) affirmed that financial exclusion or limited access to financial products and services has interrelated, negative, social and economic impacts. The lack of appropriate financial service indicates that the rural population to use inefficient services at a high cost (such as high interest rates, high transaction cost, or poor returns on savings). This restricts economic opportunities for the poor. The lack of savings results in no or less capital. The rural population are also vulnerable to financial loss due to lack of secure savings products and absence of insurance. Also, the economic growth is also negatively affected as the investment level is reduced.

Ramesh S. Arunachalam (2008) studied economy and poverty in India and the reasons for establishing a new financial inclusion program. The new/revised program should deliver various financial products and services in an affordable manner such that the rural and poor population have better opportunities to improve their livelihoods and are less vulnerable to adverse financial loss. The financial products and services should address the livelihood-related needs of the poor. “Inclusion” should also encompass livelihoods, and economic and social aspects. The policy should favor the establishment of at least 100 Financial Inclusion Centers (FINCLUCENT Network) in the focus states. Such establishments will enable the poor to access a range of services including counselling and advice on financial service providers and products, grievance mechanisms, application forms, and meeting Know Your Customer (KYC) norms etc.

Edward (2008) has remarked that a vast army of laborers is living in India, where there is a severe lack of job opportunities for the low and semi-skilled. The poor are not reaping the benefits of growth in the same way that they are in other rapidly growing economies like China and Vietnam. India finds itself higher on the [value-added] ladder than one would perhaps expect it to be. It is just that most of its population is still standing at the bottom and India's unusual development path is a serious problem.

Naveen K Shetty et al. (2009) examined the nature and type of new institutions that are emerging in the Indian financial system to include the excluded. The study found that Self Help Group (SHG)-bank linkage and Microfinance (MFI) models are the two dominating approaches in the post-financial reforms in India. The study concluded that the suitable regulatory environment is the prime concern for sustainable delivery of microfinance in India. However, the victory of 'microfinance revolution', to a great extent, depends on the reliable services with suitable pricing (rate of interest) of the financial products.

Deepak Barman et al. (2009) has discussed the microfinance intervention is considered an important component of a development strategy to mainstream the poor rural households with the formal financial system in India. This survey was conducted among 59 households of twelve villages covering four blocks of Varanasi district in the Eastern Uttar Pradesh (U.P). The collected data were analyzed with chi-square statistical test. The study found 25%of SHG clients and 20% of MFI clients confirming to the notion that microfinance services are not only provided to those who fall below the poverty line but also to the category of vulnerable non-poor who are at risk of slipping into poverty. The percentage of households receiving BPL rationing was found to be 66%among MFI clients 50%among SHG clients. The comparison of two microfinance models in the research area revealed that the level of indebtedness to moneylenders is higher in the case of MFI clients.

Mehrotra et al. (2009) discovered the key cause of social deprivation is the exclusion of the people from the formal financial services and products made available by government. The time span of such exclusion causes social unrest as well.

Rangarajan C (2009) pointed out that the inclusive economic growth can be achieved only bay way of improving on the financial inclusion parameters also deprivation may lead to unbalanced development leading to the disparity in the economic development. To avoid lopsided development underpinning factors such as the financial inclusion and social awareness and development are of paramount significance.

Kochaar, S. (2009) affirms that economic growth can leave many people in persistent poverty, if they do not have the potential to participate in and get benefited from the growth process. FI offers incremental and complementary solutions to tackle poverty to promote inclusive development and to address the Millennium Development Goals (MDGs).

(Cole, Sampson, & Zia, 2009) In this study, the authors have expressed their demand for formal financial services low in emerging markets. The first view argues about the limited cognitive ability and financial literacy style demand. A second view argues that the demand is rationally low because formal financial services are expensive and of relatively low value to the poor. The methodology of the paper was used original surveys and a field experiment to differentiate between two competing answers to this question. Using original survey data from India and Indonesia, they showed that financial literacy is a powerful predictor of demand for financial services. To test the relative importance of literacy and price, a field experiment was implemented, offering randomly selected unbanked households financial literacy education, crossed with a small incentive (ranging from the US $3 to $14) to open bank savings account. They realized that the financial services awareness program have negligible impact on the probability of operations of savings bank account. Contradicting the frequency of literacy and bank account operations the subsidy released by the government have implications on the bank account operations indication the preference of transactions. Such payments are twice as cheaper as the expenses incurred on the financial literacy programs.

Subbarao, D. (2009), argued that in order to reach an equitable and sustainable growth, the financial inclusion is must. According to him, the financial inclusion can benefit the poor by dragging their savings into the formal financial system, which grows it over time and increases capital formation.

Chakraborthy, K.C. (2010) found that the financial inclusion is sometimes treated as synonymous with rural poverty. Concerns of urban poverty also need to be factored in and the needs of various groups such as rickshaw-pullers, construction workers, migrant workers etc, must be factored in and products and services should be crafted as per their needs by the banking system to address urban FI.

SunitiNagpurkar (2010) conducted an empirical study in the city of Mumbai, among the urban poor including both migrants and non-migrants, to understand the banking exposure and banking outcomes. The study reports the difficulty in dealing with the bank staff and acknowledges that the banks on their part do not seem to be making any significant efforts to reach out to the urban poor**.**

Nageswara Rao (2010) suggested that the banking to the poor is not poor banking**.** FI is not always only social banking and there is lot of potential to get business from the people at the bottom. There is an urgent need for bottom-up approach in driving FI movement in the coming days.

Hannig, A. and Jansen, S. (2010), considered Latin America, Asia and African countries to learn the significant impact of financial inclusion on macro and micro economy. They stated that increasing the level of financial inclusion can lead to financial development and further can foster economic growth. This increase in growth rate leads to reduction in poverty level. They also argued that providing access to the poor to cheap financial services can improve their standard of living.

Rao, S. (2010) remarks that the statistics do not convey the true extent of financial exclusion. Even where bank accounts are claimed to have been opened, verification has shown that these accounts are dormant. Only a few conduct any banking transactions and even fewer receive any credit. Millions of people across the country are there by denied the opportunity to harness their earning capacity and entrepreneurial talent and are condemned to marginalization and poverty.

Usha Thorat (2010) endorsed the above view and observed that Indians believe that FI primarily implies access to a bank account backed by deposit insurance, access to affordable credit and the payment system.

S Ananth, T Sabri Oncu (2013) focused on the institutional challenges to financial inclusion in Andhra Pradesh, and they argued that the inability of formal financial institutions to meet the specific needs of the poor that have enabled informal service providers to fill the vacuum. Without a paradigm shift, especially on the part of banks, financial inclusion is bound to fall short of expectations and suggested that the banking sector should look at efforts to expand inclusion not as a capital cost or as a charitable. And finally the study concluded that the ultimate success of financial inclusion would depend on (a) measures that expand the scope of the formal banking sector; (b) overcoming pervading information asymmetries; (c) expanding financial literacy through state programs (neither public nor private banks will be able to bear the costs); (d) mandating appropriate agencies to lead efforts that expand financial inclusion; and (e) creating a relevant suite of financial products that meet the needs of the financially excluded.

Gwalani, H. and Parkhi, S. (2014), studied different models used in India to create an inclusive and sustainable financial system. They argued that, insufficient income and poverty of the rural mass are the major reasons for the low achievement in financial inclusion. Thus, they suggested that, in order to have a 100 percent financial inclusion, the concerned authority must work further to strengthen the basic structure of the economy. More specifically, if the poor people are included under any income-generating program, then the above-specified problem can be avoided to larger extent.

5.2.1 Research Gap

The provision of simple, small, affordable products can help bring low-income families into the formal monetary sector. Taking into account, their cyclic inflow of income from agricultural operations, from one place to additional and seasonal and uneven work accessibility and income, the existing financial system wants to be designed to suit their necessities. Mainstream financial institutions like banks have an important role to play in this attempt, not as a social obligation, but as a clean business proposal. The above objective affordability of financial services provides basic background information on financial services and credit, Information about community credit institutions, alternative financial services and credit programs that seek to decrease the cost of financial services and credit is also provided. In addition, if shifting social policy will steer low-income families to save through asset-building programs, then affordable financial services and capital to ensure long-term affordability of assets must be included in asset-building goals (Dailey, 2001). There is no study regarding the affordability of financial services in Sikkim especially from demand side.

5.3 Analysis and Results

Table 5. 1: Percentage of Households adhering to affordability measures across the Demographic attributes

Types of Accounts Held	Districts				Education			Age			Family Size			Total
	North	East	South	West	Below High School	High School to Higher Secondary School	Above Higher Secondary School	Up to 43	43 to 50	Above 50	Small	Medium	Large	
Government transfers	23	32	40	41	50	68	18	49	50	37	47	63	26	136
	(5)	(7)	(8)	(8)	(10)	(14)	(4)	(10)	(10)	(8)	(10)	(13)	(5)	(28)
E-Banking account	0	11	9	6	6	16	4	14	5	7	11	13	2	26
	0	(2)	(2)	(1)	(1)	(3)	(1)	(3)	(1)	(1)	(2)	(3)	(0)	(5)
Housing loan	22	10	20	13	23	35	7	24	23	18	31	30	4	65
	(5)	(2)	(4)	(3)	(5)	(7)	(1)	(5)	(5)	(4)	(6)	(6)	(1)	(13)
Car loan	21	10	4	3	14	19	5	16	16	6	23	15	0	38
	(4)	(2)	(1)	(1)	(3)	(4)	(1)	(3)	(3)	(1)	(5)	(3)	0	(8)
Personal loan	0	21	27	22	22	40	8	25	23	22	19	36	15	70
	0	(4)	(6)	(5)	(5)	(8)	(2)	(5)	(5)	(5)	(4)	(7)	(3)	(14)
Education Loan	4	4	4	2	5	8	1	3	11	0	7	7	0	14
	(1)	(1)	(1)	(0)	(1)	(2)	(0)	(1)	(2)	0	(1)	(1)	0	(3)
Insurance policy	26	63	44	36	43	102	24	71	60	38	69	84	16	169
	(5)	(13)	(9)	(7)	(9)	(21)	(5)	(15)	(12)	(8)	(14)	(17)	(3)	(35)
Knowledge of government assistance for insurance	37	75	74	78	91	137	36	107	90	67	85	124	55	264
	(8)	(15)	(15)	(16)	(19)	(28)	(7)	(22)	(19)	(14)	(18)	(26)	(11)	(54)
Punctuality for Insurance Policy	26	50	45	22	35	85	23	63	50	30	62	65	16	143
	(5)	(10)	(9)	(5)	(7)	(18)	(5)	(13)	(10)	(6)	(13)	(13)	(3)	(29)

Source: Survey Data

Figures in the brackets indicate the percentage of reported numbers to the total household respondents

Table 5. 2: Results of Chi Square Test between the measures of affordability to financial services and the Social characteristics of the respondent households

Types of accounts held	Districts - wise	Education group - wise	Age group - wise	Family size - wise
Degree of freedom	3	2	2	2
Government transfers	4.67 (0.20)	1.76 (0.41)	1.03 (0.60)	0.49 (0.78)
E-Banking account	8.67 (0.03)	1.60 (0.45)	4.42 (0.11)	2.27 (0.32)
Housing loan	12.08 (0.01)	0.07 (0.96)	0.24 (0.89)	8.93 (0.01)
Car loan	32.93 (0.00)	0.38 (0.83)	4.14 (0.13)	14.26 (0.00)
Personal loan	23.04 (0.00)	0.26 (0.88)	0.07 (0.97)	3.36 (0.19)
Education Loan	1.22 (0.75)	0.25 (0.88)	13.60 (0.00)	3.52 (0.17)
Insurance policy	14.20 (0.00)	9.03 (0.01)	8.33 (0.02)	15.26 (0.00)
Knowledge of government assistance for insurance	16.52 (0.00)	3.53 (0.17)	8.48 (0.01)	5.61 (0.06)
Punctuality for Insurance Policy	15.38 (0.00)	10.31 (0.01)	9.88 (0.01)	8.84 (0.01)

Source: Primary data

Figures in the brackets indicate the respective level of significance (LoS). Table values of χ^2 at 5% loS for 3df are 7.81, and for 2df is 5.99.

In order to study the affordability to financial services by the household respondents in Sikkim, the demographic variables were studied by way of educational qualification, age and the family size of the household, (Ref- Table 5.1) percentage of the respondents presently availing the services. For identifying the homogeneity of the affordability of services across the demographic characteristics, $\chi 2$ test of homogeneity is conducted (Ref- Table 5.2).

When observed district -wise, it is found that the percentage of households having e-banking, housing loan, personal loan, insurance policy, knowledge of government assistance for insurance and punctuality for insurance policy vary significantly.

The percentage of e-banking account holders of the East and South Sikkim district is the maximum with 2% of household and the lowest is the North Sikkim with 0% of households with e-banking. The variation the West Sikkim district is mediocre in range. The overall percentage is at 5%, which is due to the shortcomings in North Sikkim, and mostly contributed by East and South Sikkim. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the North Sikkim followed by the West Sikkim is in dearth of the services.

The percentage of housing loan account holders of the North Sikkim District is the maximum with 5% of household and the lowest is the East Sikkim with 2% of households with housing loan. The variation between the West Sikkim District and the South Sikkim District is mediocre in range. The overall percentage is at 13%, which is due to the shortcomings in East Sikkim, and mostly contributed by North Sikkim. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the East Sikkim followed by the West Sikkim is in dearth of the services.

The percentage of car loan account holders of the North Sikkim District is the maximum with 4% of household and the lowest is the West and South Sikkim with 1% of households with car loan. The variation the East Sikkim district is mediocre in range. The overall percentage is at 8%, which is due to the shortcomings in South and West Sikkim, and mostly contributed by North Sikkim. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the South and West Sikkim followed by the East Sikkim is in dearth of the services.

The percentage of personal loan account holders of the South Sikkim district is the maximum with 6% of household and the lowest is the North Sikkim with 0% of households with personal loan. The variation between the East Sikkim district and the West Sikkim district is mediocre in range. The overall percentage is at 14% which is due to the shortcomings in North Sikkim and mostly contributed by South Sikkim. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the North Sikkim followed by the East Sikkim is in dearth of the services.

The percentage of insurance policy holders of the East Sikkim district is the maximum with 13% of household and the lowest is the North Sikkim with 5% of households with insurance policy. The variation between the West Sikkim district and the South Sikkim district is mediocre in range. The overall percentage is at 35%, which is due to the shortcomings in North Sikkim, and mostly contributed by East Sikkim. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the North Sikkim followed by the West Sikkim is in dearth of the services.

The percentage of knowledge of government assistance for insurance of the West Sikkim district is the maximum with 16% of household and the lowest is the North Sikkim with 8% of households with knowledge of government assistance for insurance. The variation between the East Sikkim district and the South Sikkim district is mediocre in range. The overall percentage is at 54%, which is due to the shortcomings in North Sikkim, and mostly contributed by West Sikkim. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the East, South Sikkim followed by the North Sikkim is in dearth of the services.

The percentage of punctuality for insurance policy of the East Sikkim district is the maximum with 10% of house hold and the lowest is the North and East Sikkim with 5% of households with punctuality for insurance policy. The variation in South Sikkim district is mediocre in range. The overall percentage is at 29%, which is due to the shortcomings in North and West Sikkim, and mostly contributed by East Sikkim. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the North, West Sikkim followed by the South Sikkim is in dearth of the services.

However, the percentage of government transfers and percentage of households with education loan are homogeneously distributed across the four districts.

Thus, with regard to district wide extant of penetration of e-banking account, housing loan, car loan, personal loan, insurance policy, knowledge of government assistance for insurance and punctuality for insurance policy is concerned the Null Hypothesis stands rejected at 5% LoS.

When observed education group -wise it is found that percentage of households having Insurance policy, and punctuality for insurance policy vary significantly.

The percentage of insurance policy holders of the high school to higher secondary school is the maximum with 21% of household and the lowest is the above higher secondary school with 5% of households with insurance policy holders. The variation of the below high is mediocre in range. The overall percentage is at 35%, which is due to the shortcomings in above higher secondary school and mostly contributed by high school to higher secondary school. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the above higher secondary school education level are in dearth of the services.

The percentage of punctuality for insurance policy holders of the high school to higher secondary school level householder is the maximum with 18% of household and the lowest is the above higher secondary school level with 5% of households with punctuality for insurance policy. The variation of the below high school is the mediocre in range. The overall percentage is at 29% which is due to the shortcomings of above higher secondary school and mostly contributed by high school to higher secondary school level. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the above higher secondary school are in dearth of the services.

However, the percentage of government transfers, e- banking account, housing loan, car loan, personal loan, education loan, and percentage of households with knowledge of government assistance for insurance are homogeneously distributed across the education group-wise.

Thus, with regard to education group-wise insurance policy holders, and punctuality for insurance policy is concerned the null hypothesis stands rejected at 5% LoS.

When observed age group -wise it is found that percentage of households having education loan, insurance policy, knowledge of government assistance for insurance and punctuality for insurance policy are vary significantly.

The percentage of education loan holders of the 43 to 50 years age group is the maximum with 2% of house hold and the lowest is the above 50 age group with 0 of households with education loan account. The variation up to 43 year age group is mediocre in range. The overall percentage is at 3% which is due to the shortcomings in above 50 years age group with 0 and mostly contributed by 43 to 50 years age group. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the above 50-age group followed by the up to 43 years age group is in dearth of the services.

The percentage of insurance policy holders of the age group of up to 43 is the maximum with 15% of household and the lowest is the above 50 age group level with 8% of households with insurance policy. The variation of age group 43 to 50 is the mediocre in range. The overall percentage is at 35%, which is due to the shortcomings in age group above 50 and mostly contributed by up to 43 age group level. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the above 50 years age group followed by the 43 to 50 age group is in dearth of the services.

The percentage of knowledge of government assistance for insurance of age group up to 43is the maximum with 22% of house hold and the lowest is the above 50 age group with 14% of households with knowledge of government assistance for insurance. The variation 43 to 50 age group level is the mediocre in range. The overall percentage is at 54%, which is due to the shortcomings in age group above 50 and mostly contributed by Up to 43 age group level. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the above 50 age group level are in dearth of the services.

The percentage of punctuality for insurance policy of age group up to 43is the maximum with 13% of house hold and the lowest is the above 50 age group with 6% of households with of punctuality for insurance policy. The variation 43 to 50 age group level is the mediocre in range. The overall percentage is at 29%, which is due to the shortcomings in age group above 50 years age group and mostly contributed by Up to 43 age group level. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the above 50 age group level are in dearth of the services.

However, the percentage of government transfer, e-banking account, housing loan account, car loan account, and percentage of households with personal loan account are homogeneously distributed across the age group -wise.

Thus, with regard to district wide extant of penetration of education loan, insurance policy, and knowledge of government assistance for insurance and punctuality for insurance policy is concerned the null hypothesis stands rejected at 5% LoS.

When observed Family size -wise it is found that percentage of households having Housing loan, Car loan, Insurance policy and Punctuality for Insurance policy vary significantly.

The percentage of housing loan holders of the small family size and medium family size is the maximum with 6% of household and the lowest is the large family size with 1% of households with housing loan. The variation of the large family size -wise is mediocre in range. The overall percentage is at 13% which is due to the shortcomings in large family size and mostly contributed by small family and medium family size. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the large family size is in dearth of the services.

The percentage of car loan account holders of the small family size is the maximum with 23% of household and the lowest is the large family size with 0 of households with car loan account. The variation of the medium family size -wise is mediocre in range. The overall percentage is at 8% which is due to the shortcomings in large family size and mostly contributed by small family size. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the large family size is in dearth of the services.

The percentage of Insurance policy holder holders of the medium family size is the maximum with 17% of household and the lowest is the large family size with 3% of households with Insurance policy. The variation of the small family size is mediocre in range. The overall percentage is at 35% which is due to the shortcomings in large family size group and mostly contributed by medium family size. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the large family is in dearth of the services.

The percentage of Punctuality for Insurance holders of the Medium and Small family size is the maximum with 13% of household and the lowest is the large family size with 3% of households with punctuality for insurance. The overall percentage is at 29%, which is due to the shortcomings in large family size and mostly contributed by medium and small family size. Although the majority of the financial institutions and the government efforts are evenly put for financial inclusion, it seems that the large family size is in dearth of the services.

However, the percentage government transfers, e- banking account, personal loan, education loan, and knowledge of the government assistance for insurance are homogeneously distributed across the age group -wise.

Thus, with regard to family size wide extant of penetration of housing loan, car loan, insurance policy and punctuality for insurance policy is concerned the null hypothesis stands rejected at 5% LoS.

Table 5. 3: H-Test for variation in Levels of Satisfaction on Affordability of Financial Services across the district -wise of Household respondents in Sikkim.

Affordability Parameters		Districts -wise	Mean Rank	Chi-Square	Significance
Being a Insurance policy holder	**Servicing**	**North**	110.54	3.41	(0.182)
		East	78.02		
		South	81.7		
		West	82.81		

	Easy process	**North**	75.69	6.401	(0.041)
		East	92.77		
		South	87.32		
		West	75.29		
	Cumbersome process	**North**	90.81	2.458	(0.293)
		East	78.56		
		South	88.2		
		West	88.15		
	Reliability of agents	**North**	81.69	3.685	(0.158)
		East	95.65		
		South	86.72		
		West	66.65		
Service Insurance	**Information Sharing**	**North**	71.88	3.883	(0.143)
		East	83.46		
		South	88.75		
		West	92.58		
	Legal information sharing	**North**	61.73	0.838	(0.658)
		East	94.57		
		South	85		
		West	85.06		
	Agent's transparency regarding services	**North**	83.62	3.752	(0.153)
		East	83.54		
		South	88.73		
		West	84		
	Skill of agents for marketing insurance product	**North**	60.54	6.749	(0.034)
		East	94.26		
		South	90.05		
		West	80.29		
	Agents' skill regarding investment of insurance product	**North**	53.04	2.726	(0.256)
		East	94.48		
		South	93.8		
		West	80.74		
	Settlement of claim is covenant	**North**	56.67	3.783	(0.151)
		East	93.15		
		South	88.81		
		West	86.54		

Source: Primary data,
3 degree of freedom

When observed (Ref- Table 5.3) district -wise the H test reveals that the level of satisfaction varies significantly only in case of skill of agents and convenience of process to avail insurance services. Rest other parameters reveal insignificant variation in scoring ranks. The easy process is ranked high in East district and lowest in remote West district. The geography of the region has implication even on the Skill of insurance agents. The high skilled insurance agent prefer East district to remote North district. For Financial Inclusion it is essential that the most skilled people are placed in remote places so, as to improve insurance penetration.

Table 5. 4: H- Test for variation in Levels of Satisfaction on Affordability of Financial Services across the Education Group -wise of Household respondents in Sikkim

Affordability Parameters		Education Group -wise	Mean Rank	Chi- Square	Significance
Being a Insurance policy holder	Servicing	Below High School	85.67	.357	(0.836)
		High school to higher secondary school	83.58		
		Above Higher Secondary School	89.83		
	Easy process	Below High School	81.40	.819	(0.664)
		High school to higher secondary school	84.84		
		Above Higher Secondary School	92.13		
	Cumbersome process	Below High School	85.26	.716	(0.699)
		High school to higher secondary school	83.32		
		Above Higher Secondary School	91.69		
	Reliability of agents	Below High School	80.77	.502	(0.778)

		High school to higher secondary school	86.44		
		Above Higher Secondary School	86.48		
Services of Insurance Agent	**Information Sharing**	**Below High School**	78.63	3.990	(0.136)
		High school to higher secondary school	83.80		
		Above Higher Secondary School	101.52		
	Legal information sharing	**Below High School**	79.37	5.036	(0.081)
		High school to higher secondary school	82.81		
		Above Higher Secondary School	104.38		

2 degrees of freedom
Source: Primary data

When observed (Ref- Table 5.4) across the education group of H test, the highly educated people of the state of Sikkim were found to have greater expectation from the insurance services thus theirs ranks in level of satisfaction is the lowest (Ref- Table5.4) on the contrary people with low and mediocre level of school education have limited expectation of business Insurance services. Thus, the ranks reveal relatively higher level of satisfaction for given business insurance services. However, (Ref- Table5.4) education group -wise, it is found that there is no significant the variation at 5% level of significance. For financial inclusion, it is essential that the most skilled people are placed in each district of Sikkim in order to improve the insurance services in effectively.

Table 5. 5: H- Test for variation in Levels of Satisfaction on Affordability of Financial Services across the Age Group -Wise of Household respondents in Sikkim

Affordability Parameters		Age Group - Wise	Mean Rank	Chi- Square	Significance
Being a Insurance policy holder	Servicing	Up to 43	88.65	7.959	(0.019)
		43 to 50	92.49		
		Above50	66.36		
	Easy process	Up to 43	88.37	.654	(0.721)
		43 to 50	83.03		
		Above50	81.82		
	Cumbersome process	Up to 43	87.07	.391	(0.823)
		43 to 50	82.31		
		Above50	85.38		
	Reliability of agents	Up to 43	87.37	1.459	(0.482)
		43 to 50	87.15		
		Above50	77.17		
Services of Insurance Agent	Information Sharing	Up to 43	83.96	0.131	(0.936)
		43 to 50	86.73		
		Above50	84.21		
	Legal information sharing	Up to 43	91.87	2.713	(0.258)
		43 to 50	79.37		
		Above50	81.05		
	Agent's transparency regarding services	Up to 43	79.80	1.666	(0.435)
		43 to 50	89.48		
		Above50	87.63		
	Skill of agents for marketing insurance product	Up to 43	95.45	9.146	(0.010)
		43 to 50	71.31		
		Above50	87.09		
	Agents' skill regarding investment of insurance product	Up to 43	86.80	0.389	(0.823)
		43 to 50	82.03		
		Above50	86.34		
	Settlement of claim is covenant	Up to 43	87.87	0.791	(0.673)
		43 to 50	85.04		
		Above50	79.57		

Source: Primary data
2 degrees of freedom

When expressed (Ref- Table 5.5) Age group -wise the H test reveals that the level of satisfaction varies significantly only in case of Insurance servicing and Skill of agents for marketing Insurance product. Rest other parameters reveal insignificant variation in scoring ranks. The insurance servicing is ranked high in 43 to 50 years and lowest in above 50 years age group. And in the case of Skill of agent for marketing of Insurance product up to 43 age group scored the highest mean rank and 43 to 50 age group scored the lowest rank. Up to 50 year people are getting more information regarding Insurance product because they are in the services so, it may the reason. For Financial Inclusion it is essential that the most skilled agents are to be providing information to above 50 years people also for improving Insurance Services.

Table 5. 6: F- Test for variation in Levels of Satisfaction on Affordability of Financial Services across the Family Size of Household respondents in Sikkim

Affordability Parameters		Family Size	Mean Rank	Chi- Square	Significance
Being a Insurance policy Holder	Servicing	Small	84.22	3.410	(0.182)
		Medium	89.30		
		Large	65.78		
	Easy process	Small	75.30	6.401	(0.041)
		Medium	94.06		
		Large	79.28		
	Cumbersome process	Small	84.38	2.458	(0.293)
		Medium	88.40		
		Large	69.81		
	Reliability of agents	Small	77.17	3.685	(0.158)
		Medium	89.49		
		Large	95.19		
Services of Insurance Agent	Information Sharing	Small	85.25	3.883	(0.143)
		Medium	88.78		
		Large	64.06		
	Legal information	Small	88.70	0.838	(0.658)
		Medium	81.81		

	sharing	**Large**	85.81		
	Agent's transparency regarding services	**Small**	85.96	3.752	(0.153)
		Medium	88.13		
		Large	64.47		
	Skill of agents for marketing insurance product	**Small**	74.18	6.749	(0.034)
		Medium	91.49		
		Large	97.56		
	Agents' skill regarding investment of insurance product	**Small**	82.11	2.726	(0.256)
		Medium	90.03		
		Large	71.06		
	Settlement of claim is covenant	**Small**	80.11	3.783	(0.151)
		Medium	91.58		
		Large	71.56		

Source: Primary data
2 degrees of freedom

When observed (Ref- Table 5.6) across the family size, the H test reveals that the level of satisfaction varies significantly only in case of skill of agents and convenience of process to avail insurance services and rest other parameters reveal insignificant variation in scoring ranks. The convenience of process is ranked high in medium family size group and lowest in small family size. In the skill of agents for marketing insurance product the respondent of large size family have assigned a higher score and lowest in small family size. Therefore, the family size has impact on the level of satisfaction of the insurance services. For financial inclusion, it is essential that the most skilled people should provide Insurance services to the family size -wise and also improve insurance services quality, based on the family size -wise.

Table 5. 7: Levels of Satisfaction regarding affordability to Financial Services across the Demographic characteristics of Household respondents in Sikkim

Demographic Characteristic / Affordability Parameters		Being a Insurance Policy				Services of Insurance Agent					
		Servicing	Easy process	Cumbersome process	Reliability of agents	Information Sharing	Legal information sharing	Agent's transparency regarding services	Skill of agents for marketing insurance product	Agents' skill regarding investment of insurance product	Settlement of claim is covenant
Districts	North	MLD	MLD	MLD	MLD	MLD	SLD	MLD	MLD	SLD	MLD
	East	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD
	South	MLD	MLD	MLS	MLS	MLD	MLD	MLD	MLD	MLD	MLS
	West	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD
Education	Below High School	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD
	High school to higher secondary school	MLD	MLD	MLS	MLD	MLD	MLD	MLD	MLD	MLD	MLD
	Above Higher Secondary School	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD
Age	Up to 43	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD
	43 to 50	MLD	MLD	MLS	MLD	MLD	MLD	MLD	MLD	MLD	MLD
	Above 50	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD
Family Size	Small	MLD	MLD	MLS	MLD	MLD	MLD	MLD	MLD	MLD	MLD
	Medium	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD
	Large	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD
Total		MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD	MLD

Source: Primary data

The satisfaction of accessibility to various financial services was collected on 5 point Likert's Scale ranging from Very Strongly dissatisfied being (1)to Very Strongly satisfied (5).

Mean Score	Level of satisfaction	
1-2	SLD	Strong Level of Dissatisfaction
2-3	MLD	Moderate Level of Dissatisfaction
3-4	MLS	Moderate Level of Satisfaction

From Ref- Table 5.7, it is observed that the house hold respondents of all the districts of Sikkim North Sikkim, East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction. This amounts to the need for improving the overall insurance services in all the districts of Sikkim.

The level of satisfaction of insurance services at the education level observes that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref-Table 5.7). Similarly, when observed level of satisfaction across the age group of households, all respondents ranging from below 43, 43-50 and above 50years expressed moderate level of dissatisfaction. The level of satisfaction of insurance services when observed across the family size of the households that all the respondents small family size, medium and large family are moderately dissatisfied of the insurance services, in a nut shell when observed the overall levels of satisfaction about the insurance services it is observed that there exists moderate level of dissatisfaction.

When (Ref- Table 5.7) it is observed that house hold respondents of all the districts of North, East, South, and West Sikkim are expressing moderate level of dissatisfaction. This amounts to the need for improving the overall ease of insurances services in all the districts of Sikkim.

The level of satisfaction of ease of insurance services when observed across the education level, it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7). Similarly, when observed level of satisfaction across the age group of household all respondents ranging from below 43, 43-50 and above 50years, the respondents express moderate level of dissatisfaction, Even though the variation seems to appear in the scale.

The level of satisfaction of ease of insurance services when observed across the family size of the households that all the respondents small family size, medium and large family are moderately dissatisfied of the insurance services, When observed, the overall levels of satisfaction about the ease of insurance services, it is observed that there exists moderate level of dissatisfaction.

From Ref- Table 5.7, it is observed that household respondents of North, East, and West Sikkim are expressing moderate level of dissatisfaction. However, house hold respondents of South Sikkim, expressed the moderate level of satisfaction. This amounts to the need for improving the overall Cumbersome process of insurances in all the districts with special attention for North, East, and West Sikkim.

The level of satisfaction of cumbersome process of insurance process when observed across the education level found that the below high school and above higher secondary school people are expressing moderate level of dissatisfaction whereas the high school to higher secondary school pass outs level respondents are expressing moderate level of satisfaction (Ref- Table 5.7). Similarly, the level of satisfaction across the age group of household respondents ranging from below 43 and above 50 years of the respondents were observed to express moderate level of dissatisfaction, whereas, the age group of below 43 to 50 years expresses moderate levels of satisfaction

The level of satisfaction of cumbersome process of insurance process when observed across the family size of the households, small, medium and large family size of the respondents are moderately dissatisfied of the cumbersome process of insurance process. The overall levels of satisfaction about the cumbersome process of insurance process found to have moderate level of dissatisfaction.

From Ref- Table 5.7, it is observed that household respondents of North, East and West Sikkim are expressing moderate level of dissatisfaction. However, house hold respondents of South Sikkim, expressed the moderate level of satisfaction. This amounts to the need for improving the overall reliability of insurance agents of insurances in all the districts with special attention for North, East, and West Sikkim.

The level of satisfaction of reliability of insurance agents when observed across the education level it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7). Similarly, when the level of satisfaction across the age group of households for all respondents ranging from below 43, 43-50 and above 50years was observed, the respondents were found to express moderate level of dissatisfaction,

The level of satisfaction of reliability of insurance agents when observed across the family size of the households observed that all the respondents small family size, medium and large family are moderately dissatisfied of the insurance services. However, when observed, the overall levels of satisfaction about the reliability of insurance agents found existence of moderate level of dissatisfaction.

It is observed that the household respondents of all the districts of Sikkim are North Sikkim, East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction (Ref- Table 5.7). This amounts to the need for information sharing of insurance product by agent in all the districts of Sikkim.

The level of satisfaction of information sharing of insurance product when observed by the agent across the education level found that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7). However, education group -wise it was observed the all the districts of household respondents of Sikkim express moderate level of dissatisfaction.

Similarly, when observed level of satisfaction across the age group of household all respondents ranging from below 43, 43-50 and above 50years the respondents express moderate level of dissatisfaction,

The level of satisfaction of sharing of insurance product by agent when observed across the family size of the households found that all the respondents small family size, medium and large family are moderately dissatisfied of the information sharing of insurance product by agent. In addition, the overall levels of satisfaction about the Information sharing of insurance product by agent had moderate level of dissatisfaction.

It is observed that the household respondents of East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction (Ref- Table 5.7). However house hold respondents of North Sikkim, expressed the strong level of dissatisfaction. This amounts to the need for improving the legal **i**nformation sharing of insurance product by agent in all the districts of Sikkim, with special attention to North Sikkim.

The level of satisfaction of legal information sharing of insurance product by agent when observed across the education level found that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7). However, education group -wise when observed the all the districts of household respondents of Sikkim express moderate level of dissatisfaction.

Similarly, when observed level of satisfaction across the age group of household all respondents ranging from below 43, 43-50 and above 50years the respondents express moderate level of dissatisfaction,

The level of satisfaction of legal information sharing of insurance product by agent when observed across the family size of the households found that all the respondents small family size, medium and large family are moderately dissatisfied of the Legal information sharing of insurance product by agent. The overall levels of satisfaction about the legal information sharing of insurance product by agent found to have moderate level of dissatisfaction.

However, district -wise when observed the East, South and West Sikkim household respondents express moderate level of dissatisfaction that contradicts the Strong level of satisfaction expressed by the North Sikkim respondent households.

When (Ref- Table 5.7) it is observed that house hold respondents of all the districts of Sikkim are North Sikkim, East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction. This amounts to the need for improvement Agent's transparency regarding Insurances services in all the districts of Sikkim.

The level of satisfaction of agent's transparency regarding insurances services, when observed across the education level it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7).

Similarly, when observed level of satisfaction across the age group of household all respondents ranging from below 43, 43-50 and above 50years, the respondents expressed moderate level of dissatisfaction,

The level of satisfaction of agent's transparency regarding insurances services when observed across the family size of the households that all the respondents small family size, medium and large family are moderately dissatisfied of agent's transparency regarding insurances services. The overall levels of satisfaction about the agent's transparency regarding insurances services found existence of moderate level of dissatisfaction.

When (Ref- Table 5.7) it is observed that house hold respondents of all the districts of Sikkim are North Sikkim, East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction. This amounts to the need for improvement Skill of agent for marketing Insurance product in all the districts of Sikkim.

The level of satisfaction of skill of agent for marketing insurance product when observed across the Education level it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7).Similarly, when observed level of satisfaction across the age group of household all respondents ranging from below 43, 43-50 and above 50years the respondents express moderate level of dissatisfaction,

The level of satisfaction in skill of the agent for marketing insurance product when observed across the family size of the households that all the respondents small family size, medium and large family are moderately dissatisfied of the skill of agent for marketing insurance product, In a nut shell when observed the overall levels of satisfaction about the skill of agent for marketing Insurance product it is observed that there exists moderate level of dissatisfaction.

However, family size -wise when observed the all the districts of household respondents of Sikkim expressed moderate level of dissatisfaction.

From Ref- Table 5.7, it is observed that house hold respondents of East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction. However, house hold respondents of North Sikkim, expressed the strong level of dissatisfaction. This amounts to the need for more improving the legal agent's skill regarding investment of insurance product in all the districts of Sikkim. With give more special attention to North Sikkim.

The level of satisfaction of agent's skill regarding investment of insurance product when observed across the education level it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table

5.7).Similarly, when observed level of satisfaction across the age group of household all respondents ranging from below 43, 43-50 and above 50years the respondents express moderate level of dissatisfaction, Even though the variation seems to appear in the scale,

The level of satisfaction of agent's skill regarding investment of insurance product when observed across the family size of the households that all the respondents small family size, medium and large family are moderately dissatisfied of the agent's skill regarding investment of insurance product, In a nut shell when observed the overall levels of satisfaction about the agent's skill regarding investment of insurance product it is observed that there exists moderate level of dissatisfaction.

When (Ref- Table 5.7) it is observed that house hold respondents of North, East and West Sikkim are expressing moderate level of dissatisfaction. However house hold respondents of South Sikkim, expressed the moderate level of satisfaction. This amount to the need for improving the overall Settlement of claim is covenant of Insurances in all the districts with special attention for North, East and West Sikkim.

The level of satisfaction of settlement of claim is covenant of insurance when observed across the education level it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7). However, when observed the education group -wise household respondents of Sikkim express moderate level of dissatisfaction.

Similarly, when observed level of satisfaction across the age group of household all respondents ranging from below 43, 43-50 and above 50years the respondents express moderate level of dissatisfaction, Even though the variation seems to appear in the scale.

The level of satisfaction of settlement of claim is covenant insurance when observed across the family size of the households that all the respondents small family size, medium and large family are moderately dissatisfied of the settlement of claim is covenant of insurance services. The overall levels of satisfaction about the settlement of claim is covenant found existence of moderate level of dissatisfaction.

For the parameter on insurance services by the ease of process Insurance policy, it is observed that household respondents of all the districts of Sikkim North, East, South and West Sikkim are expressing moderate level of dissatisfaction.

The level of satisfaction of ease of process of insurance Services when observed across the Education level it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7).

For the parameter on insurance services by the reliability of agents of insurance policy, It is Ref- Table 3.3) it is observed that house hold respondents of North, East and West Sikkim are expressing moderate level of dissatisfaction. However, house hold respondents of South Sikkim, expressed the moderate level of satisfaction.

For the parameter on Insurance services by the information sharing of insurance product by agent (Ref- Table 5.7) it is observed that household respondents of all the districts of Sikkim are North Sikkim, East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction.

The Level of Satisfaction of Information Sharing of insurance product by agent When observed across the Education level it is observed that all education level such as Below High School, High School to Higher Secondary School and Above Higher

Secondary School people are expressing moderate level of dissatisfaction (Ref- Table 5.7).

For the parameter on insurance services by the legal information sharing of Insurance product by agent, From Ref- Table 5.7, it is observed that house hold respondents of East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction. However, household respondents of North Sikkim, expressed the strong level of dissatisfaction. This amounts to the need for improving the legal information Sharing of Insurance product by agent in all the districts of Sikkim with special attention to North Sikkim

The level of satisfaction of legal information sharing of Insurance product by agent when observed across the education level it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7). However, education group -wise when observed the all the districts of household respondents of Sikkim express moderate level of dissatisfaction.

For the parameter on insurance services by the skill of agent for marketing insurance product (Ref- Table 5.7), it is observed that house hold respondents of all the districts of Sikkim are North Sikkim, East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction. This amounts to the need for improvement skill of agent for marketing insurance product in all the districts of Sikkim.

The level of satisfaction of skill of agent for marketing insurance product when observed across the family size of the households that all the respondents small family size, medium and large family are moderately dissatisfied.

`For the parameter on Insurance services by the agent's skill regarding investment of insurance product. From Ref- Table 5.7, it is observed that household respondents of East Sikkim, South Sikkim, and West Sikkim are expressing moderate level of dissatisfaction. However, the household respondents of North Sikkim, expressed the strong level of dissatisfaction.

For the parameter on insurance services by the settlement of claim is covenant, When (Ref- Table 5.7) it is observed that house hold respondents of North, East and West Sikkim are expressing moderate level of dissatisfaction. However, house hold respondents of South Sikkim, expressed the moderate level of satisfaction.

The level of satisfaction of settlement of claim is covenant of insurance product when observed across the education level it is observed that all education level such as below high school, high school to higher secondary school and above higher secondary school people are expressing moderate level of dissatisfaction (Ref- Table 5.7).

5.4 Conclusion

To conclude the affordability parameters do vary across the districts and the education level is inversely related to the insurance policies. The highly educated people do not consider insurance product useful for them however, the farmers and undereducated people have a positive notion about insurance. Age group -wise the punctuality of insurance is observed to be positively associated. When noted the family size it is observed that the Nu-Clear families do consider the importance of insurance whereas the joint families do not lay much significance to the insurance policies. The affordability parameters clearly lay down that the households in Sikkim are for the services offered but mostly the people from South Sikkim and East Sikkim could afford and serve the insurance policies and bank loans. As the avenues for the revenue in West Sikkim and North Sikkim are limited, the people belonging to those places have revealed a kind of indifference towards products that are not of transactional purposes in the immediate future. However, this analysis is suggestive that apart from education at school levels financial literacy shall be imparted with concentrated efforts in North District and West District. As the services of Loan offered by banks could enhance their earning capacity and insurance could secure loans from being transmitted to next generations.

Chapter- 6

6.1 Utilization of Financial Services

6.1.1 Introduction

This dimension is motivated by the notion of ‘under banked’ or ‘marginally banked’ people, as observed by Kempson et al. (2004). They have observed that *‘in some apparently very highly-banked countries, a number of people with bank account are nonetheless making very little use of the services on offer…’*. These people are termed as ‘under-banked’ or ‘marginally banked’. These under banked people, having access to the formal financial services, are unable to use the same because of remoteness of banking outlets, unaffordable conditions attached to financial services or simply due to negative experiences with the service provider. These factors reflect negatively on the inclusiveness of a financial system. Thus, merely having a bank account is not an adequate attribute for inclusive financial system; it is also essential that the banking financial services are effectively utilized. The utilization can be in many forms for credit, deposit, payments, remittances, transfer etc. So, the usage dimension should include measures on all these different forms. However, cross-country comparable data on payments, remittances, and transfers are not available till date. Hence, we consider two basic services of the banking system – credit and deposit for incorporating the usage dimension in the present index. The appropriate indicators for these would be the volume of credit and deposit to adult individuals as a proportion of GDP. Such data are, however, currently not available. Data on credit and deposit to the household sector are available for a few countries. Relying on them would greatly reduce the coverage of the present study. Hence, we use the data on volume of credit to the private sector and deposit mobilized from the private sector as proportion of the country's GDP to measure this dimension.

Paucity in availability of financial services remains as a main dispute, especially for the weaker section in developing countries. According to the Global Findexreport 2014, 62% of adults in developing countries have a bank account at a financial institution, and amongst the 40% households of poor people, this number drops to 54% for adults. According to the current empirical studies, financial development, and access to financial services are significant channels for improvising small and medium enterprise´s investments as alongside household consumption and risk coping. In this situation, lack of access to financial services in the developing nations may extensively restrain additional economic development.

Hence, it is imperative to comprehend the underlying reasons causing hindrance for access parameters of financial services. This helps in designing a policy to commensurate with the measures for eradication of problems.

Most of the literature articulates and recognizes factors confining reach of the poor to the financial services from the perspective of supply and the demand perspective. The demand aspects are now at the heart of the prime studies since the underpinning of need for financial services is no longer overlooked. Profitability being the key motivator for the financial institutions they focus less in the rural areas with limited population and minor demand for services.

Financial access is as a parameter denotes the availability of affordable, quality financial service. It lays down that the individuals are enabled to explore and benefit from the use of financial services. Financial use however denotes the utility derived out of the existing financial products and services expressed in terms of quantity and quality.

Access to financial services would be possible only if the close and affordable service outlets are reachable within the standards affordable by the individuals. Existence of financial service outlets and infrastructure have a vital role in assessing the access from both perspectives of supply and demand.

Empirical works on the determinants of access to finances have moved from the secondary data base to the primary data with focus on the use aspect of financial services portraying more about the demand perspective. A multivariate probit analysis by Bendig et al in 2009 helps conclude that the factors such as risk have significant on the households resorting to the formal financial institutions. Financial shocks from time to time might discourage the households to opt for the formal financial services.(Campero & Kaiser 2013) conclude that the level of school education have implications on the households resorting to the formal financial services. However the unorganized sector is used as a complimentary in the event of uncertainty.

Exploratory studies on the determinants of accessibility to financial services from the perspective of supply have concentrated on parameters of measuring the outreach to know access (Beck et al, 2005),(Beck et al 2008) and understanding the hindrance to access services of the banks using cross-country and cross-bank data. The study revealed that size of the bank and physical availability of infrastructure are key determinants of knowing the likelihood of existing barriers. The convenience to reach the financial services are negatively associated with the hindrances to financial service usage and reach. In line with above (Honohan& King 2009) suggests that countries with larger income profile are better catered by the financial institutions as compared to that of the nations with low income profile. The cause is attributed to the regulatory framework and the technology penetration and computer literacy of the country.

6.2 Review of Literature

RBI (2003) reports that **t**here is a distinct regional imbalance while accessing the financial services whereas the most heavily populated and poverty-stricken regions of eastern, central and north - eastern India have a disproportionately lower level of financial access. While these states represent 54 percent of the nation's populace and 40.5 percent of the absolute bank shares, they have just a 20 percent offer in exceptional bank credit and 29 percent share of deposits.

Clark et al. (2005) reveals that the administration seems to be successful for promoting basic financial services; a significant issue is the accounts that are dormant with limited usage of automated systems of banking. Most of them were not able to take advantage of the beneficial main streams offered by the banks. This has been later explained in the as a case of ‘financial exclusion within financial inclusion’.

Priya, B. (2005) concluded form the NSSO’s Situation Assessment Survey (SAS) 2003 that the share of institutional agencies in terms of loans outstanding of farm households in India was only 57.7 per cent. On the other hand, informal agencies provided 42.3 per cent of the outstanding loans of farm households in 2003, which exceeded the amount provided in 1991-92 i.e. 30.6%.The share of money lenders in total dues of rural households has increased from 17.5 per cent to 25.7 per cent between 1991-2003 (NSSO 1998 and 2005). A Rural Finance Access Survey (RFAS) 2003, conducted by the World Bank (WB) and National Council of Applied Economic Research (NCAER), revealed that 79%of the rural households had no access to credit from formal sources**.** It is in this context that RBI has taken measures for FI and constituted a technical group for reviewing legislations on money lending (**RBI, 2006).**

Dev, S. Mahendra (2006), put forth the concept of financial inclusion and its related demand side and supply side issues and challenges by using the cross sectional data of all Indian states. His findings claimed that small and marginal farmers have been excluded highly from the formal source credit. Among Indian states, Andhra Pradesh has recoiled the highest level of exclusion of marginal and small farmers including 73-80%of loan from moneylenders. As such formal financial institutions plays a vital role in improving the condition of financial inclusion and the standard of living of small and marginal farmers. In addition, he pointed out that the Self-Help Group and Micro Financial Institutions may contribute towards increasing the financial inclusion.

RBI (2006) reported that India in the last 15 years has witnessed unprecedented growth in financial services, unfolded by liberalisation and globalisation. Alongside this positive development, there are evidences that the formal financial sector still excludes a large section of population. As of March 2006, the saving accounts per 100 adult populations were 63 and credit accounts were only 16 in India.

Bluebook (2006) opines that the financial inclusion is all about making the financial system soft and flexible enough to reach the needy. The deprived communities may be educated and included by way of campaigning and subsidies.

Thorat, U. (2006) mentions that the a bank account becomes the gateway to know the demands of the deprived communities. It could be a good beginning, the services may be furthered to include insurance with bank accounts and small and medium term loans that the customers may be able to avail and re pay on time etc.

Claessens (2006)showed the evidence on the importance of finance for economic well-being. It provided data on the use of basic financial services by households and firms across a sample of countries such as universal access, macroeconomic, legal, and regulatory obstacles. Despite the benefits of finance, the data showed that use of financial services is far from universal in many countries, especially in developing countries. Universal access to financial services has not been a public policy objective in most countries and would likely be difficult to achieve. Countries can, however, facilitate access to financial services by strengthening institutional infrastructure, liberalising markets and facilitating greater competition, and encouraging innovative use of know-how and technology.

Anderloni et al. (2007) contradicts the opinion of Thorat U (2006) and insists on the use and frequency of operation. This is possible if the accounts are made operative even from the remote locations. However, the technology of present day have ensured the account operations even from a remote corner**.**

Suryanarayana, M.H. (2008) provided empirical evidence to show that the growth process between 1993-94 and 2004- 05 has crossed the majority and not inclusive. At the national level, the inclusion coefficient is higher for the rural sector than the urban sector. The inclusive coefficient is the lowest in rural Kerala; which is contrary to one would expect, given the progressive policies pursued in the state and highest in Bihar.

Thyagarajan and Venkatesan (2009) in a recent study found that in some districts, at least more than 85 percent of the no - frills accounts are dormant due to distance from bank branches, low financial literacy, and poor marketing by banks.

Ignacio M and Kumar K (2008) mention the technology intervention into the financial services ambit. The mobile phones have been convenient to ensure 24 x 7 access and operational efficiency. This will increase the transactions and knowledge of the same will improve services extension to even the deprived communities. .

Minakshi Ramji (2009) has administered structured questionnaire survey with 999 respondents, spread over 50 villages in 2 of its 11 blocks, only 25 villages in each block were randomly chosen and collected information on logistics and awareness levels regarding the drive, opening and usage of accounts, availability and perceptions of formal and informal finance for households, and the financial habits of respondents in Gulbarga, Karnataka. The study found that the proliferation of new accounts to excluded households has been quite small and accounts have gone to households that already had access to savings and accounts. 36% of our sample continues to remain excluded from any form of formal or semi-formal savings mechanism such as a bank account and savings account with SHGs, neighborhood groups, MFIs, or chit funds, and most accounts opened during the financial inclusion drive and used to receive these NREGP payments. It also revealed that the general impression about banks is that they are meant for ‘richer’ people. While these attitudes could be changed, it should be noted that significant costs related to travel to banks and loss of work pose a significant barrier to usage of formal bank savings accounts.

Shibi, Sebastian and Usha, Nandhini. (2010) state that Microfinance has great platform in India. The current demand for micro credit in India has crossed Rs.600 billion amongst which four- fifths is met by informal finance or moneylenders.

Upadhyay, S. (2010) observed that the financial inclusion measures are the spearheading tool for inclusive social and economic growth. Bank account penetration in the rural pockets and for the deprived class of people could open avenues for small scale harnessing of deposits and facilitate the lending of micro nature. The comprehension of financial inclusion is possible to achieve if there is an approach that fits into the shoes of the needy people.

Anuradha, P.S. and Ganesan, G. (2010) highlighted the potential of Micro Finance institutions and mentioned about the importance of micro credits and also the regularity of recovery in micro finance have been far better than the credit extended to the industrialists.

Vighneswara Swamy, P. M. (2011) has explained that accessibility of finance by the deprived is a prerequisite for poverty reduction and sustainable economic development. The study has critically analysed the issues and challenges involved in financial inclusion for inclusive growth in India. The article has also recommended some policy choices for attractive implementation of the policy of financial inclusion for sustainable development of nation economy. The paper has concluded the significance of financial inclusion arises from the difficulty of financial exclusion of nearly three billion people from the financial services across the globe. India, with merely 34% of the populationoccupied in formal banking services and 135 million financially excluded households, is in the second highest after China. Further, the real rate of financial inclusion in India is also very low and about 40% of the account, holders use their accounts not even once a month.

Ardic, 0. P. *et al.* (2011) Applying the world bank data measured the use and access of the financial services and products among the adults. It is revealed from the study that 56% of the adults are financially included and have access to the formal financial inclusion measures. However, the parameters he applied raise the question regarding the use and frequency. The study concluded that the access to formal financial system was greater in the developed economies and poor in the developing economies. The positive correlation among the economic growth parameters and the financial inclusion parameters emphasis on the measures for the developing economies to priorities the financial inclusion.

Used data of CGPA and World Bank on financial access to measure It was found that the 44 % of the p percentage of financial exclusion among adults at global level and examined the positive impact of financial inclusion by using a cross country analysis. They found that the adult groups at the global level are excluded by 56 percent from getting formal sources of financial services. They also found that adult groups are excluded highly in developing countries than the developing countries. In addition, they claimed that widening coverage of financial inclusion can increase the standards of poor by proving cheap loans to them.

Chhattopadhyay (2012) emphasized on the priority of the financial inclusion as a policy to enable the deprived community a decent livelihood. The rest of the economic and social policy agenda will follow the suit. The interlink between the overall human development index and the use and availability of financial inclusion is well comprehended .

Shanker, S. (2013) Viewing Micro Finance Institutions as a measure for improving financial inclusion the researcher suggested the flexibility in operations of the Microfinance institutions to include as many deprived people as possible.

Thapar (2013) attempted to study the financial inclusion program by taking a sample of banks in Punjab. The measures taken by the banks were elaborated and identified that the progress is in tandem with the norms laid down by the RBI. The study concluded that though the banks were complying with RBI norms but still a lot of efforts were to be put in for financial inclusion progress.

Uma and Rupa (2013) highlighted the role of the SHGs in financial inclusion and mentioned that the crucial factor being the empowerment of the people for self-reliant economy of the group. This sense of responsibility leads to the high morale and motivation amongst the erstwhile financially excluded to get included in the formal financial system.

6.2.1 Research Gap

From the aforementioned literatures, a significant research gap and lack of input was obtained. It is argued that since banking services are a public good, the main objective of public policy would be the Usage of banking services to the entire population without discrimination. Vision of poor people from the financial system is protection and safety of deposits, low transaction costs, suitable operating time, least paper work, regular deposits, and quick and easy admittance to credit and other products, counting remittances appropriate to their income and consumption. To the best of our knowledge, there are no studies on the utilization of financial services in Sikkim, particularly from the demand side.

6.3 Analysis and Results

Table 6. 1 Mean and Coefficient of Variation of the frequency of Usage of Financial Services across the Demographic characteristics of Household respondents in Sikkim

Demographic Characteristics \ Usage Parameters		Operating Bank Account	BCs Visits	Electronic Card	Withdrawal	E-Banking
		Frequency of Usage of Financial Services on annual basis				
Districts	North	5.90 (1.97)	2.03 (3.30)	20.48 (1.90)	20.04 (0.91)	7.96 (5.80)
	East	3.74 (1.33)	2.18 (3.47)	11.46 (0.83)	15.22 (2.07)	0.00 0.00
	South	9.27 (3.17)	14.89 (3.70)	16.37 (1.87)	16.12 (2.42)	1.65 (4.54)
	West	8.70 (1.76)	9.10 (3.34)	23.09 (2.35)	10.40 (1.09)	2.89 (9.64)
Education	Below High School	8.95 (3.01)	10.11 (4.20)	15.70 (2.24)	11.61 (2.19)	2.42 (10.12)
	High School to Higher Secondary School	5.48 (1.86)	5.12 (4.22)	19.86 (1.97)	16.03 (1.80)	3.39 (8.08)
	Above Higher Secondary School	8.89 (1.69)	8.69 (4.89)	17.89 (2.32)	24.96 (0.80)	6.15 (6.80)
Age	Up to 43	5.36 (2.10)	3.95 (2.68)	20.02 (1.75)	17.72 (1.98)	6.45 (6.32)
	43 to 50	5.73 (1.59)	11.78 (4.11)	18.39 (2.27)	12.92 (0.98)	0.64 (7.31)
	Above 50	10.51 (2.75)	5.96 (4.61)	15.93 (2.34)	15.92 (1.76)	2.81 (9.25)
Family Size	Small	5.99 (1.99)	9.08 (4.48)	17.55 (1.53)	19.93 (2.04)	5.74 (6.95)
	Medium	7.36 (3.21)	6.73 (4.66)	21.00 (2.25)	13.24 (1.03)	1.38 (4.97)
	Large	8.40 (1.56)	4.76 (2.61)	13.08 (2.48)	12.36 (1.04)	3.38 (9.56)
Total		7.05 (2.58)	7.22 (4.53)	18.22 (2.09)	15.54 (1.74)	3.37 (8.43)

Source: Primary Data.
Figures in the Brackets indicate the Respective Coefficient of Variation

Table 6. 2 F- Test for the variation in frequency of Usage of Financial Services across the Demographic characteristics of Household respondents in Sikkim

Usage Parameters / Demographic characteristic	Statistics	Operating Bank Account	BCs Visits	Electronic card	Withdrawal	E-Banking
		Frequency of Usage of Financial Services on annual basis				
Districts	df	3/481	3/481	3/481	3/481	3/481
	F	2.27 (0.08)	4.44 (0.00)	2.00 (0.11)	2.79 (0.04)	1.81 (0.15)
Education	df	2/482	2/482	2/482	2/482	2/482
	F	2.18 (0.11)	1.24 (0.29)	0.61 (0.54)	5.19 (0.01)	0.35 (0.70)
Age Group	df	2/482	2/482	2/482	2/482	2/482
	F	3.88 (0.02)	2.58 (0.08)	0.46 (0.63)	1.35 (0.26)	1.81 (0.16)
Family size	df	2/482	2/482	2/482	2/482	2/482
	F	0.59 (0.56)	0.57 (0.56)	1.44 (0.24)	3.8 (0.02)	1.15 (0.32)

Source: Primary data
Figures in brackets indicate the respective Levels of Significance (LoS).
df = degrees of freedom
Table value of F at 5% LoS for 3/481, df is2.605.
Table value of F at 5% LoS for 2/482, df is 2.996.

From Table 6.2, it is identified that across the districts BCs visits and Withdrawal vary significantly. It implies that there is a difference across the districts in BCs visit. As posited by the Mean and Coefficient of Variation (Ref- Table 6.1).

The South and the West districts have higher frequency of visit of the BCs compared to the East and the North districts. This may be attributed to the accessibility of the region.

By observing the withdrawal frequency i.e. the F- Test varies significantly across the districts, it is confirmed that North and South districts have higher frequency withdrawal compared to the East and the West districts (Ref- Table 6.2).

From Table -6.2, it is identified that Education -wise, Withdrawal vary significantly. So, it suggests that there is a difference across the education -wise. As posited by the Mean and Coefficient of Variation (Ref- Table 6.1).

The above higher secondary education levels have higher frequency of withdrawal compared to the High School of Higher Secondary School and Below High School education. This may be attributed to the accessibility of the region.

By observing the operation of banking frequency, it is found that Above 50 years age group have higher frequency of operating bank compared to 43 to 50 years and up-to 43 years age group. This is confirmed when (Refer Table- 6.2) the F- Test varies significantly across the districts.

From Table -6.2, it is identified that across the Family size, Withdrawal vary significantly. It means that there is a difference across the Family size -wise in Withdrawal frequency. As posited by the Mean and Coefficient of Variation (Ref- Table 6.1).

The small family size group has higher frequency of withdrawal process than that of the Large and Medium family size groups. This may be attributed to the accessibility of the region.

The behavior of the households in Sikkim found to be normal at par with the national standards. The variation observed across the demographic characteristics is natural as the family size, education, and districts demands more withdrawals. The bank accounts are operative for the work force, which is mostly the medium age group. Thus, significance is apparent (Refer Table-6.2). Other parameters are uniformly distributed across the demographics characteristics.

6.4 Conclusion

To conclude the utilization of financial services do vary significantly across the districts as far as the visits of bank business correspondents are concerned. The state is bestowed with topography that varies in each district. North District and West districts are difficult to access and parts of East district are difficult to visit on regular intervals. The climatic conditions and the weather have a bearing on the regularity of visits. This is evident from the analysis. One can infer that the nature have implications on the accessibility to some extent.

Withdrawal of money from the banks varies across the educational level of the households the highly educated people maintain the bank accounts for transaction motives and investment motive. However, the mediocre level and low educated people perceive that the bank accounts are for maintaining savings and thus the frequency of withdrawal is less. This also varies across the accessibility of the topography. One can observe that remote pockets of the state are usually characterized by people with less acc to educational institutions hence their knowledge of bank account operations have implications on the frequency of withdrawal that is in addition to the topographical constraints.

When observed the withdrawals they considerably vary across the family size with small families being more frequent than the large families. It is reflected that the large family households do plan their income and expenses in systematic pattern such that the expenses to visit the financial institutions are minimized. However, the nuclear families are of the opinion that if whatever money lies with the banks will fetch some returns and on rolling basis the interest will be the gain. Moreover, the nuclear families are mostly educated and included financially as compared to the joint families. This also reveals that the daily needs for the nuclear family are planned on weekly basis; however, the joint families do have monthly plans for meeting daily needs.

Chapter- 7

7.1 Conclusion and Summary

Sikkim is a small hilly state with geographical, social, and economic diversities. In addition, it is geographically distant from many facilities such as network, transportation systems, etc. Consequently, Sikkim has poor Financial Inclusion Index (FII) because it is faced with many opportunities as well as challenges for realizing the goal of financial inclusion. It is evident from the study that there is a vast disparity in financial inclusion front, and only East Sikkim is at the top with respect to the number of bank offices in the urban area.

The study developed FII to determine the degree of financial inclusion in four districts of Sikkim. The East district scored 0.52, which was the highest value in composite FII for the population. In comparison, the West district scored 0.18, which was the lowest financial inclusion value. The North and South districts of Sikkim scored 0.31 and 0.30, respectively. These results indicate that districts with more social and economic empowerment showed better performance in the inclusion front. Banking availability is the major contributor to composite FII across the districts of Sikkim. Although the financial inclusion initiatives of the government and the RBI have delivered encouraging results, there is a huge untapped potential lying in rural unbanked areas in Sikkim. Effective programs for financial literacy and capacity building are required to tap this fortune at the bottom of the pyramid. In this regard, banking institutions should design, develop, and deliver tailor-made financial services as per the customers' choice and requirements. This can ensure every citizen of the country participates in the inclusive financial system. All stakeholders in inclusion drive should take it as a sustainable and profitable business proposition rather than a mandatory compliance.

With regards to the first objective on the construction of FII, it was found that accessibility varied across the districts.

Regarding the third objective on accessibility and service satisfaction, the topography was found to be the key constraint, followed by family size and age group. The insurance services were not delivered to the satisfaction of the households, and the result is confirmed in their intentions that match their levels of satisfaction. In addition, all the respondents in the sample showed dissatisfaction regarding the insurance agents' approach towards product description and knowledge. Business correspondents have been successful vehicle of financial inclusion to the inaccessible areas for under-educated people. In the South and East districts of Sikkim, the people mostly used accounts for transaction purpose, while the people in the other districts faced constraints in accessing the facilities offered by banks and insurance companies.

The findings regarding the fourth objective on affordability parameters varied across the districts. It was found that the education level is inversely related to insurance policies. The highly educated people do not consider insurance products to be useful for them; however, farmers and under-educated people have a positive notion about insurance. The punctuality of insurance was observed to be positively associated with age. Regarding the family size, it was observed that nuclear families considered insurance to be important, whereas joint families did not give much significance to insurance policies. The affordability parameters clearly lay down that all households in Sikkim should be able to avail the services offered, but mostly, the people from South Sikkim and East Sikkim could afford and serve insurance policies and bank loans. Due to the limited avenues for revenue in West Sikkim and North Sikkim, the residents are indifferent towards products that do not offer transactional services in the immediate future. This suggests that financial literacy should be imparted at school levels in North and West districts. As the services of Loan offered by banks could enhance their earning capacity and insurance could secure loans from being transmitted to next generations.

The findings regarding the fifth objective on the utilization of financial services also varied significantly across the districts with respect to the visits of bank business correspondents. The state is bestowed with varying topography in each district. Moreover, climatic conditions and the weather makes it difficult for the correspondents to regularly access North and West districts and parts of East district.

Withdrawal of money from banks varied across the population with respect to the educational level of the households. The highly educated people maintained bank accounts for transaction and investment motives. However, the mediocre level and less educated people considered bank accounts for maintaining savings and, thus, their frequency of withdrawal was less. This also varied with respect to the accessibility of the topography. It was observed that the remote pockets of the state were characterized by people with less access to educational institutions. Hence, their knowledge of bank account operations has implications on the frequency of withdrawal, in addition to the topographical constraints.

The withdrawals from bank accounts also varied with respect to family size, with small families making more frequent withdrawals than the large families. This suggests that the large family households plan their income and expenses systematically to minimize their visits to financial institutions. However, the nuclear families were of the opinion that the money in the banks will fetch them some returns and that, on rolling basis, the interest will be the gain. Moreover, the nuclear families were mostly educated and were financially included as compared to the joint families. This also reveals that the daily needs for the nuclear family are planned on weekly basis; however, the joint families have monthly plans for meeting daily needs.

The second objective of the thesis is to outline the initiatives undertaken by the Government of India and the RBI since Independence. Although some of the initiatives towards financial inclusion in India started before Independence, the efforts have intensified since the late 1960s. Only since 2005, 'financial inclusion' was explicitly made a major policy objective with a renewed emphasis on the objectives of bringing financially excluded people within the fold of banking sector. A multi-pronged strategy has been adopted in India to promote financial inclusion. The chapter also looked into the various new forms of financial service providers and analyzed their role in the promotion of financial inclusion.

Way Further Research

- Given the limitations of this study, the scope for further research is envisioned in the fields of Green Financial inclusion, Digital Financial inclusion and Sustainable Financial inclusion.
- The Financial Inclusion index can be further modified to capture the effect of distance from the nearest financial institution on the financial services percolation to the households.

- The objectives on availability, accessibility and utilization of financial services needs to be further synthesized to describe the perspectives of the respondent households on the current scenario of the financial services. This could also highlight the behavioral aspect of household respondents with regard to financial services and financial inclusion measures.
- The sample size of 384 households from each village could have improved the inference of the research. In future, the researchers can do justice with generalization if the sample size is increased, such that a policy document may be evolved for the financial institutions and government of the state.
- Comparison of financial inclusion in Sikkim with that in the other states in the Northeast could provide a greater idea about the status and the policies and the difference in their implementations if any.

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Annexure

SURVEY ON FINANCIAL INCLUSION

Dear Sir,

I am pursuing Ph.D Programme from Department of Commerce, Sikkim University. Title of my thesis is ***"Financial Inclusion in Sikkim: Initiatives and Outreach***." In this regard, I need your cooperation to fill up the questionnaire. I will be grateful to you for your consent and necessary cooperation. The information collected here will be exclusively used for the academic purpose.

Thanking You

Sincerely yours
Research Scholar
Sonam Topgay Bhutia.
Depart of Commerce
Sikkim University
Ph.D Registration 14/Ph.D/002

Section - A

Name: ______________________District:___________ Place:___________ Caste (SC, ST, OBC,MBC, General)Sex:(M/F)Age:________Educations Qualification:___________Occupation:________________

Type of Occupation: ______________________Married /Unmarried. No. of members in the family:____No. of members with economic occupation: ______Types of occupation of members: Govt. service:___ Pvt jobs: ___Self employment:___Farmer:___Labour:___Any Other:________________

Section - B

1. **Do you have a Bank Account? Y/N. Specify and reason**.
   If Yes,
   (1) Savings A/C **(2)**Current A/C **(3)**Pension A/C **(4)**Fixed Deposit A/C **(5)**Salary A/c **(6)** Loan A/c **(7)**Any other, **(8)** (please specify):______________________________________

   Reason (**1)** PMZDY, **(2)**MGNREGA, **(3)**Any Other: ____________________________

   If No,
   (1) Never wanted a bank account **(2)**Don't have enough money to keep in bank account **(3)**Nobody ever guide me to open a bank account **(4)**It tried to open but I was not allowed **(5)**Any Other:______________________________________

2. **What is the frequency of operating your bank account/ accounts?**
   (**1)** Daily once **(2)**Weekly once **(3)** Fourth nightly once **(4)** Monthly once **(5)**Half Yearly once (**6)**Quarterly once **(7)**Yearly once **(8)**Never

3. **State the level of your satisfaction from the banking services: VSD 1 2 3 4 5 VSS**

4. **State the measures to be taken for improving banking services**
   (1) More Branch **(2)** More ATM Point **(3)** BCs Model should be visited in village week in a month **(4)** Try to avoid such kind of hassle paperwork **(5)** Assistance / Single Counter need for Help **(6)** Financial awareness campaign need in village Quarterly **(7)** Any Other: ____________________

5. **What is the distance of the nearest bank from your house?**
   (1)50 Steps from the house **(2**) 0.25km **(3)**0.5km **(4)**1km **(5)**2KM **(6)**3KM **(7)**4KM **(8)**5KM **(9)** More than:_____________________________

6. **Do you have a Business Correspondent (BCs) from the banks, visiting from banks in the village? Y/N, If yes, Specify the services you are availing. (Mention the frequency of BCs visit)**

   (1) Saving **(2)** Fixed Deposit **(3)** Recurring Deposit. **(4)**Any Other: ______________________

   (1) Daily once **(2)**Weekly once **(3)** Fourth nightly once **(4)** Monthly once **(5)**Half Yearly once **(6)**Quarterly once **(7)**Yearly once **(8)**Never

   Please rate your levels of satisfaction on the five-point scale regarding the services of BCs

a)	Deposit of money :	VSD 1 2 3 4 5 VSS
b)	Frequency of visit of BCs:	VSD 1 2 3 4 5 VSS
c)	Information shared by the BCs about various services:	VSD 1 2 3 4 5 VSS
d)	Skills of the BCs regarding attraction of savings:	VSD 1 2 3 4 5 VSS
e)	Skills of the BC regarding investment of savings:	VSD 1 2 3 4 5 VSS

7. **Do you receive an amount in your bank account for the purposes you are involved with the government or any other institution? Y/N please specify the institutions and purpose.**

   (1) Commercial Banks **(2)**Co-operative Banks **(3)**Post Office **(4)**Insurance Claim **(5)**Any Other:____________

8. **Do you have any electronic card Y/N, If yes, which card you have, How frequently you use it?**
   Card
   (1)ATM/Debit Card **(2)**Credit Card **(3)**Post Office ATM Card **(4)**Any Other:________________
   Uses:
   (1) Daily once **(2)**Weekly once **(3)** Fourth nightly once **(4)** Monthly once **(5)** Half Yearly once **(6)**Quarterly once **(7)**Yearly once **(8)**Never

9. **What is the medium of withdrawal of money from your bank account? What is the frequency of withdrawal from your account?**

   (1) Banker cheque **(2)**By ATM **(3)**Withdrawal slip **(4)**Any Other:__________________

The frequency of withdrawal from your account?

(1) Daily once **(2)**Weekly once **(3)** Fourth nightly once **(4)** Monthly once **(5)**Half Yearly once **(6)**Quarterly once **(7)**Yearly once **(8)**Never

10. **Do you have E-Banking Account? <u>Y/N</u> If yes, what is the frequency of its use? Please Specify**.

    (1) Daily once **(2)**Weekly once **(3)**Fourth nightly once **(4)**Monthly once **(5)**Half Yearly once **(6)**Quarterly once **(7)**Yearly once **(8)**Never

11. **State the purpose of maintaining your saving in the bank account?**

    (1)MGNREGA **(2)**Pradhan Mantri Jan Dhan Yojana **(3)**Post Office Saving **(4)**Insurance **(5)** Emergency Purpose**,(7)**Medical Purpose **(8)**Personal Use **(9)** Any Other specify ______________

12. **Have you availed the loan facility <u>Y/N</u>? State the purpose and please specify the institution?**
    (1) Housing Loan **(2)** Car Loan **(3)**Personal Loan **(4)**Education Loan **(5)**Any Other :____________
    Please specify the institutions
    (1) Commercial Banks **(2)** Post Office **(3)**SHGs **(4)** Co-operatives banks **(5)** NGOs **(6)** Any Other specify:____________________

13. **State your ability to meet the emergency expenses within a month: VSD 1 2 3 4 5 VSS**

14. **Do you have an insurance policy? <u>Y/N</u> If yes, please specify the types.**
    IF Yes,
    (1)LIC **(2**) GIC **(3)**Pradhan Mantri Jan Suraksha Bima Yojana, (Two Rupees) Any Other: ___________________________

    If No,
    (1) Never wanted an Insurance Policy **(2)**Don't have enough Money to keep to open an Insurance Policy **(3)**No body ever guide me to open an Insurance Policy **(4)**It tried to open but I was not allowed

15. **Do you intend to obtain the Insurance policy? <u>Y/N</u> Please specify the reason why you feel insurance essential.**
    IF Yes, Reason
    (1) Assures for financial compensation **(2)** Reduction of risks **(3)** Encouragement to saving and investment **(4)** Basis of credit **(5)** Maintains economic stability **(6)** Promotes business activities **(7)** Provides employment opportunities **(8)** Any Other-:______________________
    If No, Reason
    (1) Because of Car Loan **(2)** Because of Housing Loan **(3)** Government Enforcement/ Compulsory policy **(4)**Bank Enforcement/compulsory policy **(5)**Any Other:_______________________

16. **Do you know the government and other intuitions are providing assistance for insurance? <u>Y/N</u> If yes, please specify the institution and types of insurance.**
    Institution
    (1) Commercial Bank **(2)**Bank, **(3)**LIC**,** **(4)**Post Office **(5)** Any Other:_______________________

Types of Insurance
(1) Life Insurance Corporation **(2)** Housing Insurance **(3)**Car Insurance **(5)**Agriculture Insurance **(6)** Any Other:________________________

17. How do-you rate on a five-point scale your sense of satisfaction on being a policyholder?

a)	Serving the insurance policy is difficult.	VSD 1 2 3 4 5 VSS
b)	I remain stress free throughout during various activities	VSD 1 2 3 4 5 VSS
c)	The process of enrolment is cumbersome	VSD 1 2 3 4 5 VSS
d)	Agents are reliable	VSD 1 2 3 4 5 VSS

18. Are you punctual in the maintenance of Insurance Policy: Y/N

19. Average monthly income (Rs in thousands) of the household ,(1) 5000-10,000 **(2)** 10,000-15,000 **(3)** 15,000-20,000 **(4)**20,000-25,000**(5)**25,000-30,000, **(6)** 30,000-35,000**(7)** 35,000-40,000 **(8)** 40,000-50,000 **(9)**50,000 and above..

20. Please rate your levels of satisfaction on the five-point scale regarding the services of Insurance Agent

a) Information regarding types of Insurance policy:
VSD 1 2 3 4 5 VSS

b) Agent is sharing legal information related to deed:
VSD 1 2 3 4 5 VSS

c) Information shared by the Insurance Agent about various services:
VSD 1 2 3 4 5 VSS

d) Skills of the Insurance Agent regarding attraction of Insurance product :
VSD 1 2 3 4 5 VSS

e) Skills of the Insurance Agent regarding investment of Insurance product :
VSD 1 2 3 4 5 VSS

f) The policy claim arises is it easily settle:
VSD 1 2 3 4 5 VSS

____________THANK YOU__________