

# Towards An Inclusive Financial System

Financial Services Demand and Utilisation by India's Low Income Workforce

An IIMS Dataworks Research Report

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## Foreword

IIMS Dataworks is delighted to present this Report titled 'Towards An Inclusive Financial System: Financial Services Demand and Utilisation by India's Low Income Workforce'.

The data in this Report are drawn from the Invest India Incomes and Savings Survey that was commissioned and run by IIMS Dataworks in 2007. This 2007 initiative is the first in a planned time series data designed to inform, assist and support the business operations of retail finance providers in India, and those who regulate their activities. For financial interests within and outside India seeking to establish or consolidate a position in the micro finance space in the sub continent, we are confident that this publication will prove to be useful.

A major challenge for India as it continues on its trajectory to economic prosperity is how to engineer a more inclusive society wherein all citizens share in the benefits of greater prosperity. Many commentators believe that a failure to do so would not only be a travesty of social justice, but could eventually threaten social stability in the country to an extent that it might unravel the very economic miracle that lies at its roots.

This Report is the most comprehensive expose yet of the financial condition of India's economically marginalized households. The Report shows that as the living standards for others continue to rise, the quality of life of these workers are likely to decline as they are pushed further to the margins of the labour market driving them deeper into poverty.

IIMS Dataworks appreciates the valued contributions made by Sa-Dhan, Indian School of Microfinance for Women, NABARD and Invest India Micro Pensions Services towards producing this publication.



Sandeep Ghosh  
Executive Director, IIMS Dataworks.

## 1. Context and Approach

In a world of imperfect markets, demand side factors create more organic solutions to meet the everyday financial needs of people. India has a rich history of experimenting with such solutions. For the government, attempting to leverage organic solutions to create more inclusive financial systems that meet the needs of citizens has found its way into mainstream policy making. For formal finance providers, they form part of the business landscape that needs to be both understood and situated in the larger business environment.

The Invest India Incomes and Savings Survey 2007 produced by IIMS Dataworks is the first effort in seeking to create a more comprehensive window into the financial circumstances and practices of the Indian workforce. An important element of this is to understand the financial pressures of the country's low income groups and how to situate both formal and informal finance solutions for this very large group. For this purpose the Survey sought to measure four key informal systems which appear to have achieved some mass in their customer base. These are Self Help Groups (SHGs), micro-finance institutions (MFIs), chit funds, and what are loosely described in India as non-bank finance companies (NBFCs) that accept deposits and make loans to members.

IIMS Dataworks estimates that in 2007 among the 321 million working age Indians with cash incomes, over 30 million individuals were active members of such arrangements. In the twelve months preceding the survey, they placed Rs.9,319 crore (US\$2.3 billion) of their savings with these entities. Customers of these organisations are overwhelmingly located in rural India – over 70 percent in the case of chit funds and NBFCs, and over 90 percent in the case of MFIs and SHGs. Women with

cash incomes are heavy users of community-based savings vehicles, representing 16 percent of chit fund and NBFC customers and 39 percent of MFI and SHG customers<sup>1</sup>. In all cases, customers of the four institution types are younger – with more than half being under age 40. These customers generally have low incomes – with nearly 80 percent having annual incomes of less than Rs.50,000 in the case of SHGs and MFIs, and 59 percent in the case of chit funds and NBFCs. This group is concentrated mainly in three occupation groups – wage labourers, small farmers and small shopkeepers.

A major utility for members of these arrangements is the availability of loans, and 47 percent of MFI and SHG members, and 29 percent of chit fund and NBFC customers in fact have active loans. For those with loans, the loan values are high relative to income, with some of the lowest income borrowers having loans equivalent to two years annual income. Nonetheless, despite their modest incomes, they are savings-focused and while in most cases they manage only a small savings corpus, in aggregate terms their estimated accumulated savings in 2007 was Rs.22,688 crore (US\$5.5 billion). Most customers save only small sums at a time, ranging between Rs.40 and Rs.200, but do so frequently – as often as fortnightly in most cases.

Some customers of MFIs and SHGs have savings outside of the small savings sector sphere – in banks (36 percent), India Post (15 percent) and gold (6 percent) – but the amounts involved in most cases are very modest. In the case of bank and postal savings for example, most individuals in this group have savings balances of less than Rs.9,000. In the case of chit funds and NBFCs, because nearly half of the total customer base have annual incomes of Rs.50,000 and upwards, cross market savings behaviours are accordingly more diverse for this group. In this case, 55 percent have bank savings with an average annual bank savings flow of Rs.26,000 (US\$ 630), 45 percent have life insurance savings and 21 percent have postal savings. Some 9 percent also have modest gold investments.

There is also some crossover between the various informal savings groups, with some 9 percent of SHG and MFI customers also being chit fund and NBFC customers. In aggregate terms, savings flows in the past twelve months into gold investments and formal financial instruments

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<sup>1</sup> Women in fact represent over 60% of total SHG membership but many of these women do not have cash incomes

were some four times that of the aggregate flows into the informal savings environment. Most of this result however is attributable to chit fund and NBFC customers who account for 70 percent of total flows into other savings instruments.

The Survey also has produced the first comprehensive profile of some 130 million paid workers aged between 18 and 59 years who earn Rs.70 or less per day. While part of the low earner group is concentrated in the younger cohort where earnings can be expected to be lower for other reasons also, and in the older age cohort where many remain in less profitable activities that characterise the old and not the new Indian economy, over 60 percent are of prime working age (between 26 and 45 years of age). Clearly, this group has failed to gain a foothold in the higher paid services sector of the economy and, given the competition for higher paid jobs among well qualified younger people, that is likely to remain the case into the future. It may even be the case that as living standards for others continue to rise that this cohort of workers will become increasingly marginalised and that their real levels of earnings will fall driving them deeper into poverty

Two thirds of these marginalised workers are daily wage labourers and one fifth are small scale farmers who live a meagre existence enveloped by uncertain employment, personal debt and little savings or social security safety nets to fall back on. Their major asset is their availability in a labour market that finds a use for them because their labour is lowly priced. While that remains the situation, they can at least continue to earn – but as has been the case elsewhere in the world, they will eventually be displaced as India modernises manufacturing, construction and farming methods to become less labour intensive.

Large numbers of unskilled rural workers are lured to the cities by the promise of higher earnings only to learn that higher earnings do not equate necessarily with higher living standards because of the generally higher cost of living in urban areas. Nonetheless, the exodus to urban areas continues with the result that 15 percent of the country's lowest earners now reside in urban areas. Many of these workers are also burdened with debt, most of which is sourced either with moneylenders (33 percent) at punishing rates of interest or with friends and relations (39 percent) which in many cases would be increasing financial pressures in extended family networks.



## 2. Sizing and Segmenting India's Low Income Workforce

There are many possible definitions and categorisations of low income workers that can be applied for research purposes. For the purpose of this Report, we have chosen to use updated, normative definitions used by the Government of India.

For the purpose of providing low income housing for the poor in urban areas, the Ministry of Urban Development and Poverty Alleviation have specified an upper limit of Rs.39,600/- annual household income as a qualifying criteria for Economically Weaker Section households. This measurement has been adopted by all Indian States and thus gives us a uniform benchmark for identifying the vulnerable segments within the urban population for this Report.

For rural areas, on the other hand, there is no such uniform benchmark and all poverty alleviation programs including rural housing schemes follow the Below Poverty Line list for targeting and disbursement of subsidies. Accordingly, we have used an updated figure of Rupees 25,400 as the threshold below which a household in a rural area can be considered as below poverty household, based on the Planning Commission's poverty line estimate for rural areas. This figure has been derived by taking the Planning Commission's estimated poverty lines (expressed as Monthly Per Capita Expenditure, or MPCE) for 2004/05 of Rs.356.30, and inflating this figure by movements in the Wholesale Price Index of 4.8% and 6.1% to account for price inflation for the years 2005/06 and 2006/07 respectively. The resultant figure was then multiplied by the average rural family size for this adjusted MPCE<sup>2</sup> and

<sup>2</sup> The average family size against the projected MPCE value as given in NSS 61st round (Report no. 508, Level of pattern of consumer expenditure, 2004 - 05).



annualised to arrive at an upper limit of annual household income for below poverty rural households.

Taking these numbers as the benchmarks for defining low income, we have sized and segmented India's low income constituency in this Report and presented a profile of the target audience in terms of its demographic, geographic, and labourforce characteristics and individual and household income values and sources. These data views produce many fundamental understandings of the nature and composition of the low income workers and households around the country.

The IISS 2007 data indicate the dangers of generalising about the incidence and composition of low income workers. For example, while the widely held belief that low income status, in numerical and in proportionate terms, is higher in rural than in urban India is generally true it is not completely accurate. The incidence of low income workers in smaller urban centres with a population size of less than one lakh for instance is marginally higher than the aggregate position for rural areas nationally. Similarly, while male earners numerically dominate the low income group nationally this is a function of the significantly lower workforce participation rate of women. In relative terms women earners are in the worse position with the proportion of low income women workers in rural areas being appreciably higher than that for their male counterparts (82 percent compared to less than 74 percent for men). However, women earners in urban areas are in the converse position as 18 percent of urban women earners are low income compared to 26 percent of their male counterparts.

States that are most burdened with the low income problem are Bihar, Orissa, West Bengal, and Assam where the problem is already endemic in both rural and urban areas, while in the rural areas, the same states have been burdened by a long period of alternate droughts and floods, over 40 percent of the paid workforce has been driven into the low income category. In urban India, Tamil Nadu and Chhattisgarh join these four states in having the highest proportion of workers from low income households within their respective paid workforce.

The IISS 2007 data also suggest a relationship between low income status and age, with the incidence of low income individuals increasing for workers in age cohorts up to their mid forties and then falling

away again (see Display 10). Without a time series data it is difficult to assess the implications of this as a number of factors are almost certainly at work. What is likely however is that lifecycle earnings for at least a part of the low paid workforce improve over time and low income status is an impermanent state for these workers. Many young people are a case in point for their earnings would be generally lower for a period immediately after they first enter the workforce than they are subsequent to that. It also appears likely that improved economic conditions generally in the country over the past two decades has had the effect of reducing the incidence of low income workers overall, but if the current incidence of low income workers is any indication, it will be many generations out from the present time for this effect to eradicate the problem in the absence of proactive policy and programmatic interventions.

What is clear is that failures in the universal education system is one important driver of low income, with a little over 70 percent of the urban low income workforce and 87 percent of the rural low income workforce having a primary school qualification only or less. This also partly explains the relatively higher incidence of low paid work among women where the equivalent percentages are higher again at 84 percent and 96 percent respectively. A headline policy issue for Government therefore is reform of the education system and with that a significantly greater infusion of public funds into building an accessible and effective public education system.

Similarly, failures in population control and employment policies appear to be implicated also as the number of dependents in low income households is significantly greater than in higher income households, as is the number of dependents in rural households compared to urban households (See Display 14). Allied with this is that in higher income households the average number of earning members is also higher.

At the household level, the data suggest that joint or extended households appear to manage to escape low income status more often than nuclear households as only some 19 percent of joint and extended households are low income households compared to 36 percent of nuclear households. Separating cause and effect in this observation however is problematic as a number of low income nuclear households at least are probably formed as a result of extended family members

who are earners, or who contribute to the household economically through unpaid work, leaving the extended family situation to migrate to locations where work and other economic opportunities are thought to be better. It is also the case that intra-family social practices that result in one individual in the family having control over the incomes and earnings of other family members, or who improve their own economic status by obtaining the services of other family members free of charge (unpaid family workers), may conceal what is in effect an incidence of low income individuals in such households.

What also needs to be understood clearly is that low income is highly correlated with occupational status (see Display 15). In rural areas, farmers, own account workers<sup>3</sup> and agricultural wage labourers make up over 80 percent of all low income workers, while in urban areas the single most significant group is own account workers who account for 32 percent of all low income workers. There is therefore good transparency for policy makers looking to redress the incidence of poorly remunerated work through wage regulation, employment, subsidies, rural reconstruction and targeted social assistance programs as there are just three broad occupational groupings of most interest.

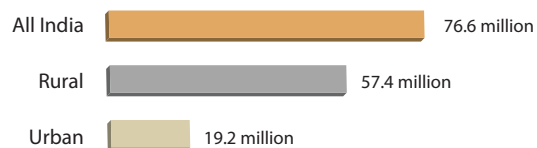
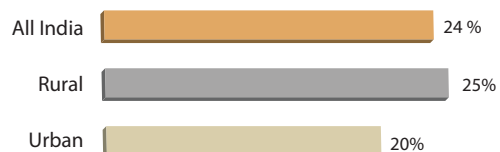
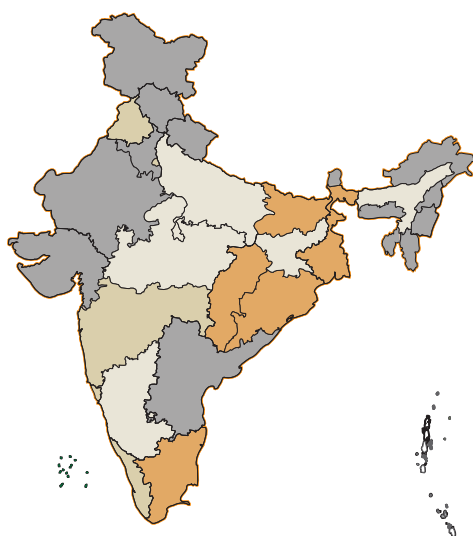
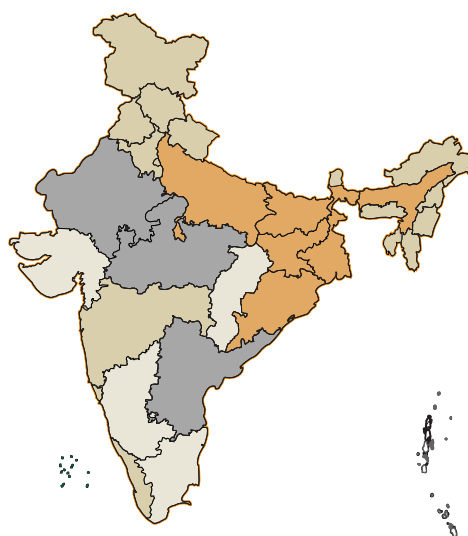
A comparison of the average incomes of low income earners as defined for the purposes of this Report and other earners demonstrates clearly the dichotomous nature of the two groups (see Display 16), with low income households having between three and six times less income on average than other earner households. Within the low income household group those who have only earned incomes do worst as the average annual income of this group is lower than for those low income households with both earned and unearned income sources.

There is no more startling illustration of the privations of low income workers than food security as only 8 percent of low income workers report that they have more than enough food to eat throughout the year. (See Display 20) Between 38 percent and 88 percent of low income workers have inadequate food for at least part of the year and between 5 percent and 11 percent have inadequate food throughout the year. Moreover, despite prolonged drought in many parts of rural India, the food security issue in aggregate terms is in fact more acute among low income workers in urban areas, but this has failed to gain the attention

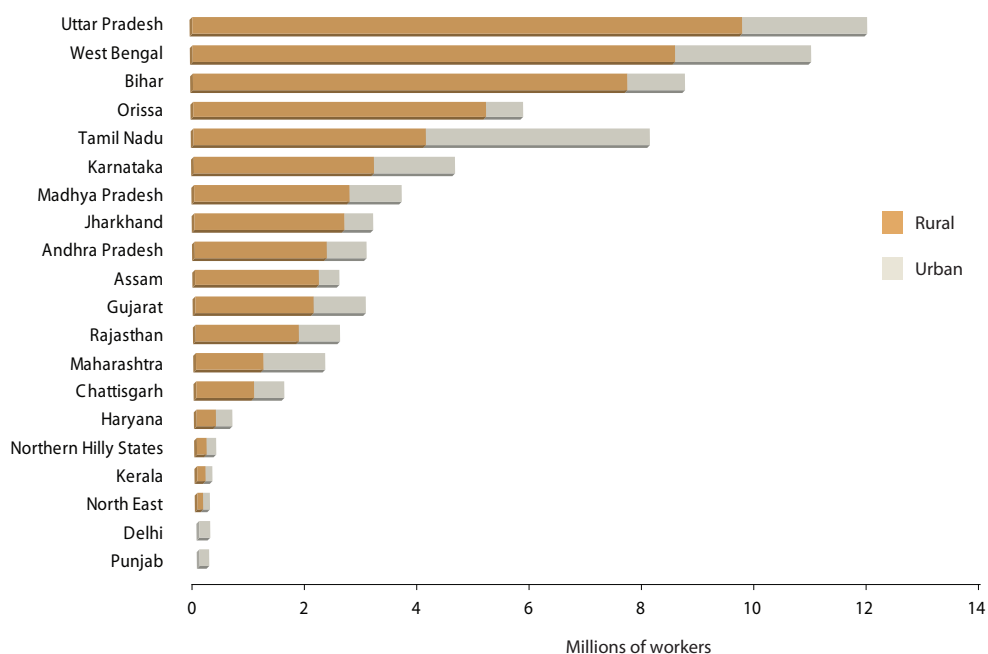
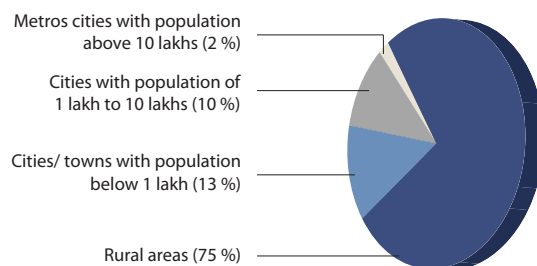
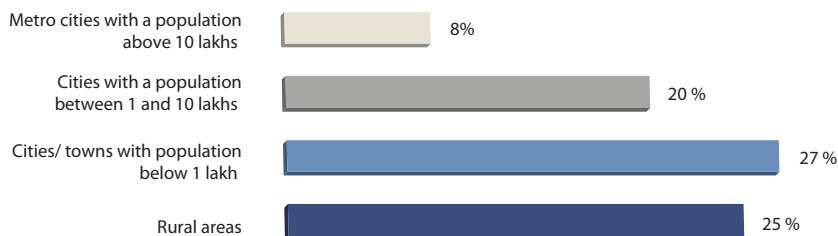
<sup>3</sup> Own account workers includes artisans and craftsmen, home based workers, semiskilled & skilled wage labourers, domestic helpers, head loaders, rickshaw pullers, etc.,

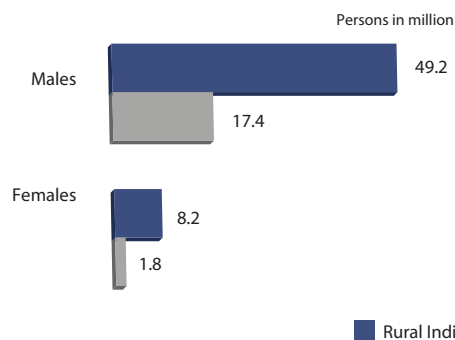
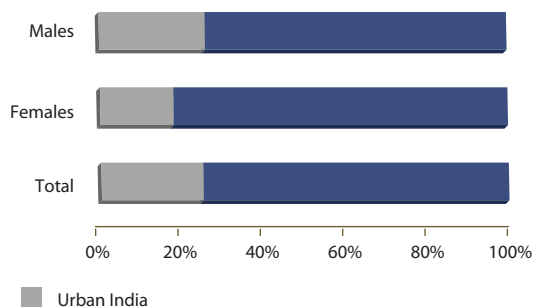
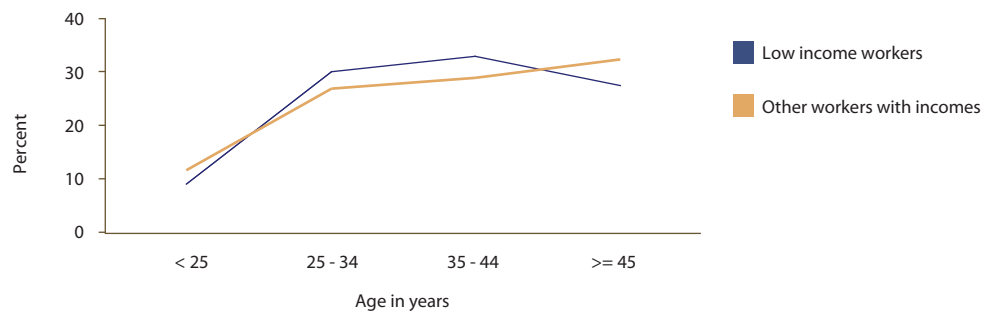
of politicians in the same way as the problem has in rural India.

At the bottom of the earnings tree are subsistence farmers, wage labourers and own account workers in rural areas, and in urban areas wage labourers. Given the unlikelihood of many of the current generation of these workers escaping their low income situation, greater levels of government assistance by way of employment programs, skills training and social assistance appear to be indicated to lift living standards to an acceptable level. To avert succeeding generations of these workers finding themselves in this same situation in the future, urgent attention is required also to ensure that free, quality educational opportunities are offered to the children of the current generation of workers, including if necessary cash incentives for parents to account for the opportunity costs to the household of their children completing their education, and beyond that assistance for children relocating to locations where there are sufficient employment opportunities for them to pursue when they have completed their schooling. In India's case, unlike so many emerging and developing economies, the country's economic prospects are sufficiently bright for this to be seriously contemplated as practical course if there is political will to proceed along these lines.

**Display 1: Estimated Number of Low Income Workers****Display 2: Low Income Workers As a Proportion of The Total Paid Workforce****Display 3: Share of Low Income Workers in the Total Urban Paid Workforce in Individual States****Display 4: Share of Low Income Workers in the Total Rural Paid Workforce in Individual States**

less than 10%    10 - 20%    20 - 30%    greater than 30%

**Display 5: Distribution of Low Income Workers in Urban and Rural Areas of Individual States****Display 6: Distribution of Low Income Workers Across Settlement Sub-Structures****Display 7: Share of Low Income Workers in the Total Workforce Within the Settlement Sub-Structures**

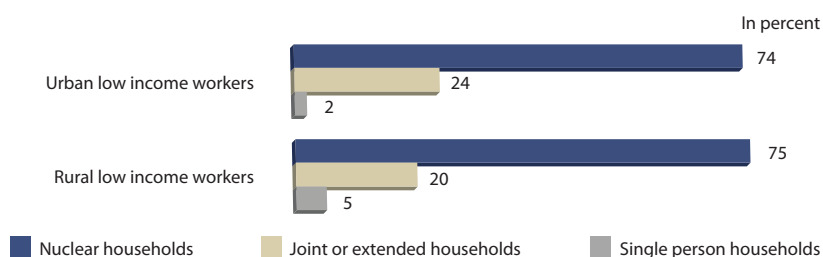
**Display 8: Gender Distribution of Low Income Workers****Display 9: Urban - Rural Shares of Low Income Workers According to Gender****Display 10: Age Structure of Low Income Workers****Display 11: Educational Attainments of Low Income Workers**

Education level	Urban low income workers			Rural low income workers		
	Male	Female	Total	Male	Female	Total
Illiterate	18	35	20	38	66	42
Literate but with no formal schooling	7	11	7	8	9	8
Schooling less than primary	12	8	11	11	9	11
Completed primary but not secondary	33	30	33	28	11	25
Completed secondary but not entered graduation	18	8	17	10	2	9
Entered but not completed graduation	8	3	8	2	1	2
Completed graduation	5	5	5	2	1	2

\* All percentages in this and subsequent tables of the report are rounded to the nearest whole percent

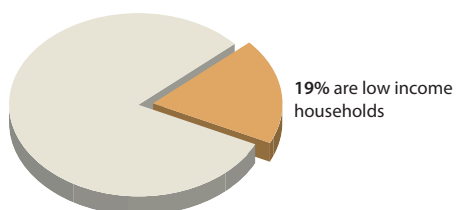


Display 12: Distribution of Low Income Workers Across Household Types

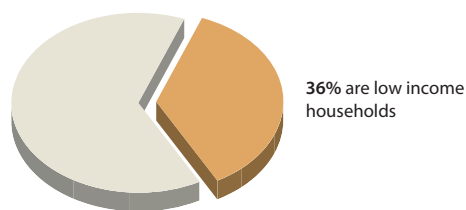


Display 13: Relationship Between Family Structure and Household Poverty Status

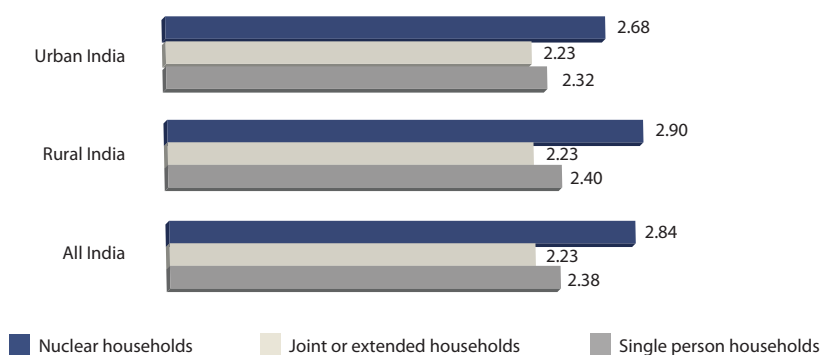
Joint or Extended Family Households



Single Earner and Nuclear Households



Display 14: Average Financial Dependency Ratio\* in Households Having Atleast One Earner



\*: Financial dependency ratio is calculated as the number of people who are financially dependant on the earner, both within or outside the household

Display 15: Occupational Distribution of Low Income Workers

In percent

Occupation groups	Rural Low Income Workers	Urban Low Income Workers
Own account workers	11	32
Wage labourers	47	28
Farmers with marketable surplus	24	2
Part time earners	3	8
Subsistence farmers	6	No estimate available
Self employed business owners without fixed premises	4	8
Self employed business owners with fixed premises	3	8
Self employed in primary sector activities other than farming	1	2
Salaried workers in private enterprise	1	10

Display 16: Comparison of Average Annual Incomes

Income sources	Low Income Households	Other Households
Average annual incomes (Rupees)		
Earners with both earned and unearned income sources	27,300	1,86,300
Earners with only earned income sources	20,700	69,900
<b>All Earners</b>	<b>21,000</b>	<b>87,400</b>

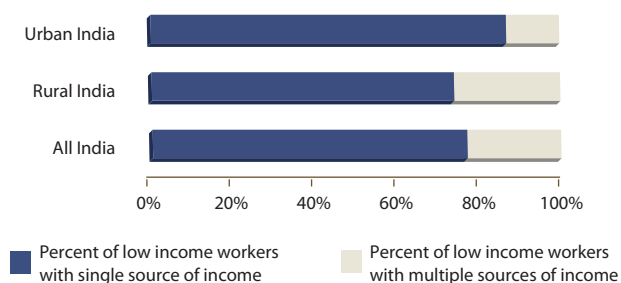
\* Income values are rounded to nearest Rupees 100.

Display 17: Average Annual Incomes of Low Income Earners

In Rupees

Occupation groups	Urban	Rural	Overall
Salaried workers in private sector enterprise	35,300	20,800	36,800
Self employed business owners with fixed premises	33,800	21,200	27,200
Self employed business owners without fixed premises	30,800	19,300	23,800
Self employed in primary sector activities other than farming	29,800	19,000	23,400
Farmers with marketable surplus	29,490	21,500	21,700
Own account workers	30,700	17,800	24,200
Part Time earners	27,400	19,500	23,500
Wage labourers	26,200	16,300	17,900
Subsistence farmers	No estimate available	15,700	15,600
All workers in low income households	29,900	18,100	21,000

Display 18: Income Sources of Low Income Workers

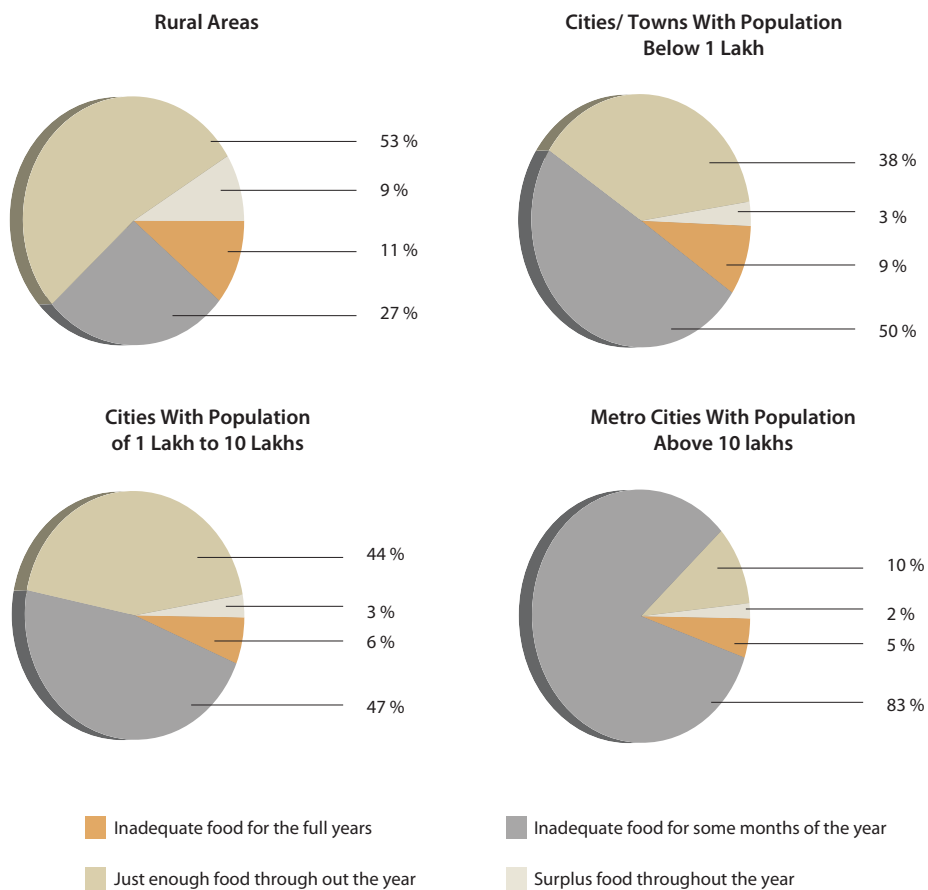


Display 19: Number of Income Sources For Individual Occupation Groups

In percent

Occupation groups	Rural		Urban	
	Multiple sources of income	Single source of income	Multiple sources of income	Single source of income
Subsistence farmer	42	58	No estimate available	No estimate available
Farmers with marketable surplus	33	67	26	74
Other self employed in primary sector activities	No estimate available	75	32	68
Salaried workers in private enterprise	18	82	26	74
Self employed Business-w/o fixed premises	19	81	6	94
Self employed Business owner-with fixed premises	19	81	11	89
Wage labourer	8	92	25	75
Other own account worker	10	90	18	82
Part time earners	No Estimate available	89	23	77

Display 20: Food Security in Low Income Households\*



\*: This Particular information was collected only from those respondents who earned less than Rupees 20,000 a year

### 3. Savings Motivations of India's Low Income Workforce

In 2007, little more than a third of all low income workers (36%) had financial savings of some kind and for those who did, the savings incidence varied significantly for different occupation groups. The savings incidence for most occupation groups in fact is lower than 50 percent with only those involved in running their own businesses and salaried workers managing a savings incidence in excess of 50 percent or higher (see Display 22).

Similarly, savings rates vary noticeably by region with average savings rates being higher than the national average for low income households in the southern and western States due possibly to the greater propensity to make gold savings in those locations, but are significantly lower than the national average in north-western, northern hilly, central and northern States (see Display 25). Savings and income relativities however are patchy. For example while there is a strong correlation between relatively low average incomes and relative low savings rates in some regions, for example the eastern States, in the north western States where average incomes among low income households are higher, savings rates are lower than in most other Regions.

For those with savings, more than half hold their savings in formal financial instruments, with bank and postal savings being the most popular instruments, although among those occupation groups with a lower savings incidence other savings channels apart from banks and India Post are relatively more popular.

Importantly, for those households that do manage to make some savings, the average savings rate does not vary remarkably between low income and other households, and in low income households in rural India, average savings rates are actually slightly higher (see Display 23). Nor do savings rates change remarkably across age groups

Of note also is that low income women on average have higher savings rates than their male counterparts (see Display 24) although generally lower earnings levels among women workers means that the money value of their savings are lower. The greater willingness to save on the part of women augers well for initiatives based on this behaviour, and the success of Self Help Groups is a case in question.

While some 27 million low income workers reported making some savings in the twelve months immediately preceding the survey, in nearly 40 percent of cases the savings made were less than Rupees 1000 suggesting that some part of these savings at least are likely to be unstable. For those who made at least Rupees 1000 in savings, savings motivations are temporal in nature with less than 30 percent being made for investment or in connection with long term savings goals. A further 11 percent of low income workers made contingency savings prompted by concerns about meeting unplanned medical expenses and other unforeseen financial emergencies should they arise. In most cases however low income workers saved for their children's education and weddings and other planned expenditures in the future, which means that most savings being made by low income workers have little prospect of improving their long term financial situations in any material way (see Display 27).

What is also very clear in the data is that anxiety levels among low income workers about their capacity to cope with a range of inevitable eventualities are considerably higher than the incidence of savings for such purposes (see Displays 29 & 30). More than half of low income workers who make savings are anxious about how they will support themselves in old age, losing their health or becoming unemployed and the interruption of earnings that it would involve, securing their housing needs and meeting social obligations in connection with their children. And obviously, the anxiety states of the 64 percent of low income workers who make no financial savings whatsoever would be worse. The fact that only a small minority of low income workers manage to make



savings for these purposes therefore is not a function of indifference or a lack of recognition of the need to have such savings. Rather the situation is that they are simply unable to do so.

What is also clear is that the savings orientation of those making savings in both urban and rural areas is very conservative with nearly 80 percent believing that placing their savings in a secure place is more important than the rate of return they can earn on those savings (see Display 31). In particular, only 12 percent correctly understand that their savings would work harder for them in securities markets (mutual funds and equities) which means that very few might take up this option even where it is available to them. In evidence of this, 16 percent of low income workers are aware of mutual fund and equity investment opportunities but only a negligible number actually has taken up the option of investing any of their savings there.

More generally, there is not a particularly good fit with low income workers being aware of a particular savings channel and actual usage rates of that channel except in the case of Self Help Groups, and to a lesser extent bank and life insurance channels (see Display 32). In the case of the postal savings channel, there is a high level of awareness of postal savings but a relatively low usage rate of that channel by low income workers, suggesting that the India Post channel is becoming more oriented to customer groups other than those with the lowest incomes.

For India's low income workforce a vitally important issue is the management of lifecycle risks, especially the extent to which low income workers are positioned to escape falling into absolute poverty with the cessation of earnings in old age. At the present time nearly one third of low income workers believe that they will need to continue to work into their old age because they will not be able to support themselves otherwise. Most however (nearly 60 percent) have given no thought to their retirement income needs whatever, including more than half of all workers over the age of 40 years for whom retirement needs should be a more front of mind issue (see Display 35). These attitudes explain in large part the absence of a retirement savings culture in India, and are symptomatic of why there is no real sense of urgency in the political process to turn this situation around.

What is perhaps more alarming is that 90 percent of the low income workforce that expects that they will one day stop working and retire are making no preparations whatever for supporting themselves in old age. Part of the explanation for this is that nearly 40 percent of those who expect to retire believe that their children will support them when they can no longer work (see Display 38). However, given the probability of their children also being in the low income workforce this strategy is tenuous at best because the capacity of children to provide that support in the future is at best suspect. On the other hand, one in seven of these low income workers are certain that support will not be forthcoming from children and the rest are uncertain that their children will be able to provide them with support even if the children are willing to do so.

The nature of support that parents expect is also important. Of the 40 percent who are confident of the support of children in old age, only one half or so in urban areas and around 40% in rural areas expect that this will extend to financial support (see Display 39). What this means is that four out of five low income workers will have no resources in their old age apart from whatever savings they have managed to make before hand and whatever earnings they are able to make when they are old. Focusing now on policies that can build a financial savings corpus for the next generation of the aged while they are still working therefore should be seen as an important and urgent social protection objective.

At the present time there are a mere three lakh low income workers making any savings whatever with their retirement years in mind. For these people, the savings accumulations involved are very modest with the average savings corpus being approximately Rupees 25,000 and less again for older workers over the age of 45 years. On present indications, a best case scenario even in the case of those who are presently saving is that they might manage enough savings pre-retirement to support themselves financially for one to two years in old age.

This presents a bleak scenario indeed for the next generation of old people, suggesting that poverty among the aged will continue to be an intractable problem into the future unless there is a significant shift in current policy settings. The Government's plans to introduce the New Pension Scheme (NPS) that is to be opened for membership to unorganised sector workers is one hopeful sign that the eventual

outcome will be less dire, and the sooner the NPS is mobilised for unorganised sector workers the better.

Whatever be the fate of the NPS for unorganised sector workers, it can be expected also that the Government in the future will need to take a more direct role in supporting the indigent aged through the Old Age Pension Scheme and like programs. As India continues on its economic growth path, the political pressures to improve social safety nets for the aged and other disadvantaged groups can be expected to intensify. There is some sign that this may already be occurring as the IISS data show that nearly 40 percent of those planning and expecting to retire also have an expectation of receiving at least some financial support from Government in their old age. The continuing growth in nuclear households in India, and the growing incapacity of low income joint and extended households to support non-earning members will further add to these pressures.

Display 21: Savings Incidence Among Low Income Workers

Savings status	Urban (Percent)	Rural (Percent)	Total (Percent)
No financial savings	58	64	64
Savings only in formal financial instruments	34	24	26
Savings only in informal financial instruments	4	8	6
Savings in both formal and informal financial instruments	4	4	4

Display 22: Savings Rates of Different Low Income Occupation Groups

Occupation groups	In percent			
	No financial savings	Savings in only formal financial instruments	Savings in only informal financial instruments	Saving in both
Subsistence farmers	61	24	13	2
Farmers with marketable surplus	59	35	4	2
Other self employed in primary sector activities	56	31	5	7
Salaried workers in private sector enterprise	44	49	3	4
Self employed business owners without fixed premises	50	34	10	5
Self employed business owners with fixed premises	42	45	6	7
Wage labourers	73	19	6	2
Own account workers	61	32	4	3
Part time earners	78	17	3	2
Others	30	61	8	2

Display 23: Savings Rates\* and Average Annual Savings of Workers With Incomes Across Geography

	Average Savings Rate			Average Annual Savings (Rupees)			Average Annual Incomes (Rupees)		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Low income workers	12.7	13.2	13.0	3,800	2,200	2,700	29,900	18,100	21,000
Other workers with incomes	17.5	13.0	14.6	36,200	11,000	20,200	1,52,200	58,600	87,400

\* Savings rate is calculated as 'the total savings as a percent of annual income'

Sources: Survey of Financial Inclusion, 2011

Display 24: Savings Rates and Average Annual Savings of Men &amp; Women Workers

	Average Savings Rate			Average Annual Savings (Rupees)			Average Annual Incomes (Rupees)		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Low income workers	12.8	14.7	13.0	2,800	1,900	2,700	22,100	14,000	21,000
Other workers with incomes	14.6	15.1	14.6	21,400	10,100	20,200	93,700	43,400	87,400

Rupees values rounded to nearest Rs.100

Display 25: Savings Rates of Low Income Workers Across Different Regions

Region	Average Savings Rate	Average Annual Savings (Rupees)	Average Annual Incomes (Rupees)
Southern States	16.5	2,900	20,500
Western States	13.5	3,500	25,400
Eastern States	12.6	2,400	18,500
North Eastern States	12.4	2,800	21,200
North Western States	10.9	3,600	33,400
Northern Hilly States	10.8	3,300	28,400
Central and Northern States	10.7	2,600	23,200
<b>All India</b>	<b>13.0</b>	<b>2,700</b>	<b>21,000</b>

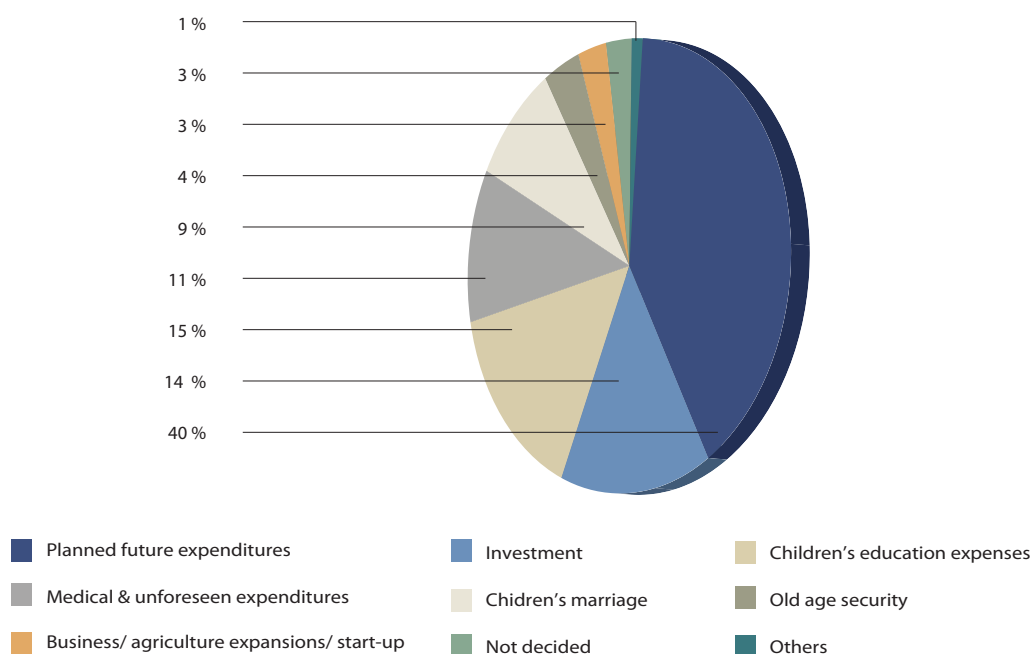
Rupees values rounded to nearest Rs.100

The average annual incomes shown for northern hilly states may be inflated due to rural areas in Jammu & Kashmir having not been included in the survey for security reasons

Display 26: Savings Rate of Low Income Workers of Different Age Groups

	Under 25 years	25 to 34 years	35 - 44 years	Above 45 years
<b>Average Savings Rate</b>				
Urban low income workers	11.7	12.9	12.5	13.1
Rural low income workers	15.6	14.7	12.4	12.1
<b>All low income workers</b>	<b>14.7</b>	<b>14.1</b>	<b>12.4</b>	<b>12.4</b>
<b>Average Savings in Last 12 Months (Rupees)</b>				
Urban low income workers	3,200	3,700	3800	3,900
Rural low income workers	2,200	2,400	2,300	2,100
<b>All low income workers</b>	<b>2,400</b>	<b>2,800</b>	<b>2,700</b>	<b>2,500</b>

Display 27: Savings Motivations of Low Income Workers With Savings

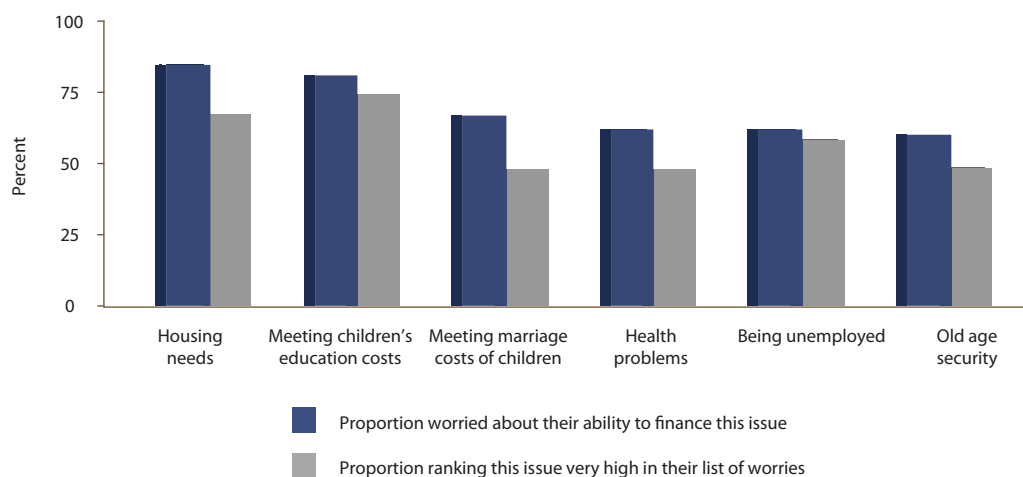


Display 28: Preferred Savings Instruments of Low Income Workers Who Save At Least Rs. 1000 per annum

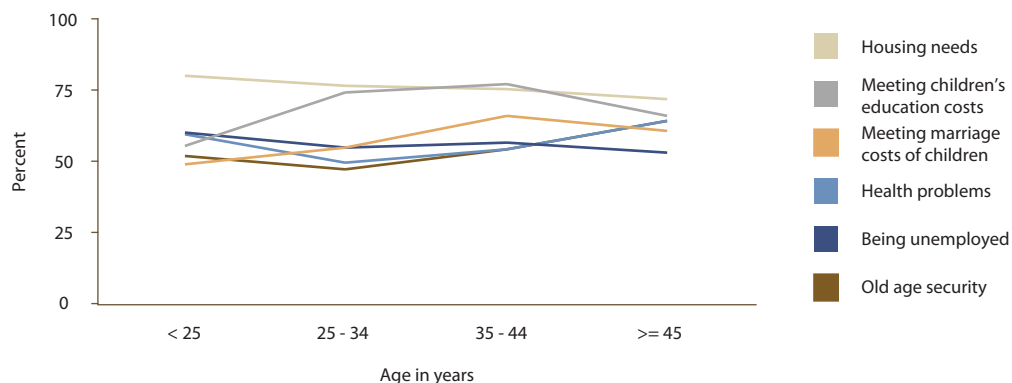
Savings Motivation	Banks	Post office	Life Insurance	SHGs	Chitfunds	Gold
Percent of those saving for the motivation						
Investment	61	17	15	15	28	4
Unforeseen financial emergencies	63	11	15	4	18	6
Business needs	62	11	17	18	32	10
Other planned future expenditures	56	14	9	6	14	10
Old age security	53	14	12	9	21	22
Children's education expenses	50	22	16	4	20	13
Children's marriage	50	26	11	2	12	17
Not decided yet	28	17	5	7	12	4
Other	45	33	6	4	10	13

\* Multiple responses are possible as a person can save in more than one financial instrument.  
Percents will not necessarily add to 100.

Display 29: Anxiety Levels Among Low Income Workers Concerning Life Cycle and Other Risks



Display 30: Anxiety Levels Among Low Income Workers Concerning Life Cycle and Other Risks According to Age





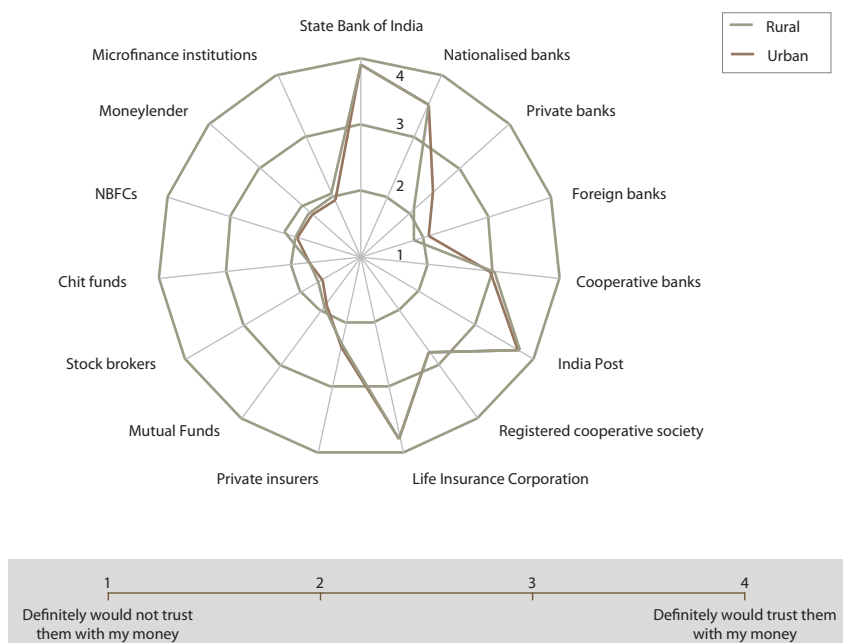
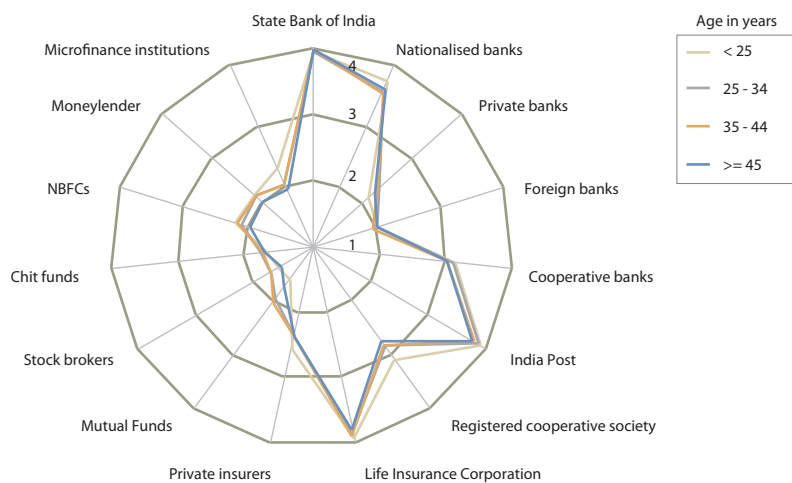
**Display 31: Attitudes of Low Income Workers Towards Selected Financial Concepts**

	Agree (Percent)	Disagree (Percent)	No opinion (Percent)
Higher investment returns imply higher risks	77	10	13
Government guarantees full deposits in nationalised banks	82	9	8
Security of savings deposits is more important than the rates of return	79	13	8
Long term returns from mutual funds and equities are much higher than bank interest	12	12	76
Life insurance is a good way to save for retirement	78	11	11
Saving regularly is more important than the amount saved	73	16	11
Having a credit card is never a good idea	12	18	71

**Display 32: Awareness And Usage of Different Channels**

In percent

Channel	Aware of the channel	Usage rate of the channel
Bank Savings	96	22
Postal Savings	94	5
Life Insurance	86	14
Mutual Funds	15	No estimate possible
Equity Market	15	No estimate possible
Chit Fund/NBFCs	49	3
Self Help Groups	7	7
Micro Finance Institutions	39	No estimate possible
Money Lenders	82	11

**Display 33: Confidence Levels of Low Income Workers In Financial Institutions and Intermediaries****Display 34: Confidence Levels of Low Income Workers At Different Ages In Financial Institutions and Intermediaries**

Display 35: Retirement Outlook of Low Income Workers

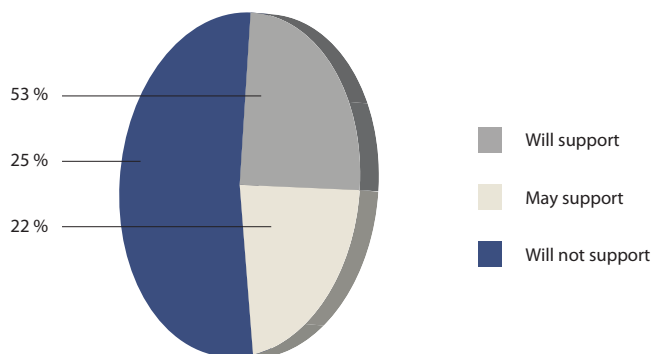
Retirement intention						In percent
	Of those aged 18 - 25 years	Of those aged 26 - 29 years	Of those aged 30 - 35 years	Of those aged 36 - 40 years	Of those aged above 40 years	All low income workers
Consciously preparing for retirement	Less than 1	1	1	1	2	2
Not preparing for retirement but expecting to retire	5	5	7	8	12	8
Has given no thought to retirement needs	64	60	61	60	55	59
Expecting never to retire	31	34	31	31	31	31

\* Percents are rounded to nearest whole percent

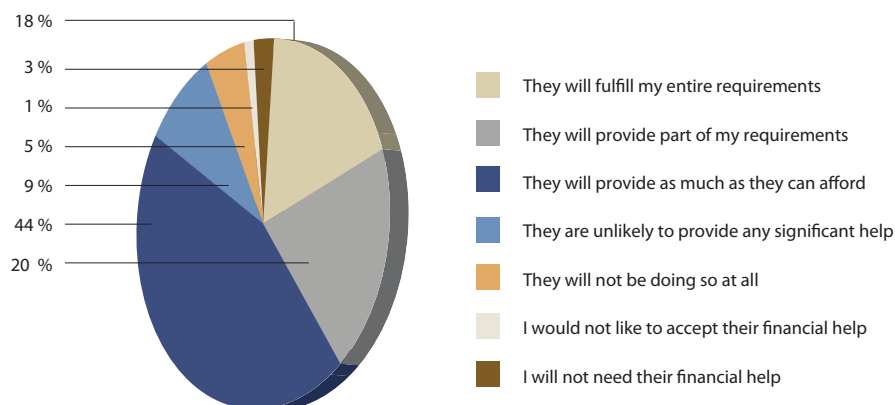
Display 36: Retirement Intentions Of Low Income Workers Across Different Occupations

Savings Channel					In percent
	Consciously preparing for retirement	Not preparing for retirement, but expecting to retire	Has given no thought about retirement needs	Expecting never to retire	
Self employed in primary sector activities other than farming	6	14	49	32	
Subsistence farmers	3	20	61	16	
Salaried workers in private enterprise	3	8	57	31	
Self employed business owners with fixed premises	3	10	51	36	
Farmers with marketable surplus	2	10	59	29	
Self employed business owners without fixed premises	2	8	64	26	
Wage labourers	1	7	61	31	
Own account workers	1	6	61	32	
Part time earners	1	4	33	62	

**Display 37: Expectations of Low Income Workers Who are Planning or Expecting to Retire of Being Supported By Government in Their Old Age**



**Display 38: Expectations of Low Income Workers Who are Planning or Expecting To Retire of Being Supported By Their Children in Old Age**



**Display 39: Expectations of Low Income Workers Who Are Planning or Expecting to Retire of Being Supported By Thier Children in Old Age**

	In percent	
	Rural Low Income Workers	Urban Low Income Workers
Expect full financial support	17	24
Expect partial financial support	20	21
Expect only what their children can afford at the time	47	35
Think it unlikely they will be supported financially	9	8
Will not be supported financially	5	5
Do not expect/need the financial support of children	4	4

**Display 40: Proportion of Low Income Workers Who Are Planning or Expecting to Retire  
Who Think that Their Children Will Take Care of Them After They Stop Earning**

In percent

Geographic Location	Nuclear Households	Joint or extended households
Rural areas	83	85
Cities/ towns with population below 1 lakh	82	88
Cities with population of 1 lakh to 10 lakhs	79	82
Metro cities with population above 10 lakhs	79	85
<b>All India</b>	<b>83</b>	<b>85</b>

## 4. Cross-Market Savings Positions of India's Low Income Workforce

For those low income workers who do make savings, bank and life insurance savings are easily the most popular way of doing so in both rural and urban India. Postal savings, gold and informal savings channels make up the balance savings practices of low income groups but between them attract no more than a fifth of low income workers as customers.

Like the earning workforce generally, therefore, low income workers who save are mainly located in mainstream finance channels. The only significant deviation from this observation is that low income women workers who save are twice as likely as their male counterparts to participate in informal finance arrangements associated with Self Help Groups (SHGs) and community based savings and credit schemes. Postal savings maintain only a modest profile with low income savers with one in twenty or so placing regular savings with India Post. It is also important to appreciate that while many low income workers buy gold, fewer than 5 percent buy gold as a conscious savings or investment decision.

Moreover, there is not a significant difference in these behaviours between younger and older low income workers indicating that savings choices are not experiencing any significant generational impact but rather remain largely unaffected by the growing popularity of a broader range of retail finance products in India in recent years. An issue for policy makers concerned to assist low income workers to better leverage their savings in higher yielding savings and investments

therefore is to raise the profile of, and access to, other than traditional markets, and to securities markets in particular. Better educating low income workers as to the advantages of higher yielding investment products is required but, given the modest savings levels that most low income workers have, it is unlikely that many will successfully do this on their own behalf even where they feel motivated to do so. Rather, more innovative approaches based on group participation in securities markets are required. Examples of how this can be achieved are the New Pension Scheme that aims to offer securities investment to low income workers saving for their retirement, and the micro pension scheme operated by the United Trust of India.

An important understanding of the cross market savings behaviours of low income groups is that significant numbers of them diversify their savings across the market. Bank savers for example take up life insurance plans in good numbers with 30 percent having life insurance plans, 6 percent also save through the India Post channel and a further 8 percent are members of SHGs with smaller numbers participating in chit funds, NBFCs and making small gold investments (see Display 45).

Actual money savings flows are also roughly in line with this pattern with 70 percent and more in some locations flowing into bank and postal savings deposits, with 12 to 18 percent of savings, depending on location, going to life insurance plans and approximately 10 percent into other savings products (see Display 46). However there are some elasticities involved in this pattern when the behaviour of particular occupational groups is considered (see display 47). Broadly speaking, postal savings are little affected by the mix of other savings preferences but bank and life insurance savings and gold purchases appear to be more interchangeable instruments for different occupation groups. Wage labourers, subsistence farmers and own account workers for example appear to substitute life insurance and gold savings for bank savings more often than other low income occupation groups, possibly because these workers have less access to banks. On the other hand, low income salaried workers appear to substitute bank and gold savings for life insurance savings more often than other occupational groups.

A disturbing aspect of bank savings patterns is that bank savings are held almost exclusively in low interest bearing passbook type accounts with only some 3% being on deposit in higher interest bearing fixed

and recurring deposits (see Display 48). What is clear from the data is that this behaviour is entirely rational in many cases as a consequence of the high premium one third or so of savers place on maintaining absolute flexibility in accessing their savings should they be required with rates of return being a major consideration for only half that number. Nonetheless this still leaves a majority of bank savers for whom flexible withdrawals are not a major consideration indicating that if banks offered and promoted small ticket size fixed deposit products with higher interest rates to low income workers many of these workers might take up that opportunity. In evidence of this, low income Postal savers are much more inclined to take up higher yielding fixed and recurring deposit products with over 20 percent of postal savers currently opting to place savings in these and other higher yielding postal savings products (see Display 51).

While annual average savings flows on a per worker basis into various savings instruments are modest ranging between Rupees 400 and Rupees 4100 for rural workers and Rupees 900 and rupees 6000 for urban workers (see Display 58), in aggregate terms the savings made add to a very substantial sum. In the case of annual savings flows, the estimated total amount saved by low income workers in the twelve months prior to the survey was 7,335 crores (see Display 59), and the accumulated savings balances at that time were an estimated 31,100 crores (see Display 60). In terms of preferred instruments, those making gold savings were the heaviest savers in both rural and urban areas, with bank, postal and life insurance savings attracting a similar per worker average annual savings amounts.

In terms of aggregate money values however over 70 percent of all savings were held by banks and life insurance companies. With aggregate savings accumulations, this figure was actually higher at nearly 90 percent of aggregate savings due mainly to the long lock in period involved in life insurance plans (see display 60). In fact, while life insurance represented only 36 percent of annual savings flows, we estimate that it represents approximately three quarters of accumulated savings at any given point in time, demonstrating clearly the benefits of long term savings instruments for low income groups whose savings otherwise are for one reason or another spent as the need arises because they are accessible. A greater emphasis on offering attractive long term savings options to low income workers therefore appeals as a



winning strategy for facilitating them building more meaningful savings corpuses over time.

Having said that, the current usage of life insurance savings plans among low income life insurance customers is centered on traditional endowment type plans that tend to be among the lower yielding of life insurance plans available in the market, with 87 percent of low income rural life insurance customers and 83 percent of low income urban life insurance customers opting for traditional endowment type plans and only small numbers opting for higher yielding ULIPs. More effort on the part of life insurance companies to promote the value of ULIPs to low income workers would certainly be a worthwhile initiative. Similarly, more effort by mutual funds to provide access to smaller investors who can afford only small ticket investments would be a boon for low income workers.

Of concern also in the life insurance case is that one in five low income life insurance customers believe that their cover level is inadequate. Interesting, the average annual savings that these individuals direct at life insurance premiums are somewhat higher than for the larger group who believe that their life cover is adequate (see Display 57). This suggests that life insurance companies need to give more emphasis to assisting customers to understand the adequacy issue as most appear to be under the delusion that their cover is adequate. Life companies also need to be aware that life insurance savings are perceived by low income workers as a sort of cure-all for many of the issues that cause them anxiety (see Display 55) so delivering best value to these customers is an important social as well as business issue.

For these and other reasons, a greater policy focus on life insurance operations with a view to lifting its performance for low income workers is certainly worth serious consideration.

Despite a sustained policy effort to sponsor community based thrift and credit arrangements for the indigent, the various programs that exist have still yet to capture mass interest from low income workers in most locations around the country (see Display 61). While the experiences in the north eastern and southern States have been more encouraging than in other locations, and low income women workers have shown greater interest in these initiatives than their male counterparts, in most States in 2007 fewer than 10 percent of low income workers had taken

up these schemes, and fewer than one in twenty male workers likewise. In the immediate term therefore it is difficult to see these schemes of arrangement offering anything like a complete solution to the problems they are designed to address, indicating that policy makers should accept that they need to keep the battle lines open on as many fronts as possible if they are to continue to make inroads into solving the problems that are there. As mentioned earlier in this Report this involves many things ranging from wages, employment and education reform as well as facilitating and fostering more innovative practices from formal finance providers to assist low income savers better leverage their savings.

One positive aspect of the situation of most low income workers is that the majority of them have secure housing either by virtue of owning their own home in 52 percent of cases, or being able to live rent free with parents and others in 39 percent of cases, with only 9 percent having to pay for rental accommodation (see Display 63). For owner occupiers, home ownership is not just a pressure release valve on the costs of daily living and their ability to cope with financial emergencies, but their properties are also a valuable asset and a possible source of collateral. As part of the survey effort owner occupiers were asked to value their homes by being asked what their price expectation would be if they were to sell their homes now. In the case of urban low income workers the average self valuation was rupees 1.8 lakhs and for rural home-owners Rupees 1.4 lakhs (see Display 64). These values, if anything like accurate, represent up to four and five years average annual earnings of the owners concerned.

However the situation in urban areas is not as encouraging as the aggregate position is that 27 percent of urban low income workers are paying rents. As the workforce in the future continues to become more urbanised, this trend to a greater number of low income workers needing to rent can be expected to increase indicating a need for a continuing focus on urban housing policies designed to provide affordable accommodation to low income groups. Demand forecasts for new home buyers (see Display 65) also indicate that unassisted entry of low income workers into the housing market may already be becoming more difficult as in the next two years fewer than five percent who are not presently home owners expect to be able to make the transition to owner occupiers. Moreover, the average budgets they have in mind for

the purpose are less than the self-valuations of their properties provided by home owners, indicating that new buyers may be underestimating the actual costs of home purchases in many cases.

An issue of considerable and understandable interest for policy makers and commercial interests alike is finding effective sales and distribution channels that can reach customers without incurring unsustainable transaction costs. For this reason insurance companies partner with banks to broaden insurance sales channels by leveraging their bank partner's access to bank customers for this purpose. Similarly banks partner with community organisations for the purpose of pumping credit at lower transaction costs to low income groups who are members of those organisations. It is possible to conceive of many more initiatives for reaching out to low income workers by such methods. IISS 2007 shows that at least one third of low income workers can be reached through either bank, postal savings, life insurance and Self Help Group channels (see Display 66).

In the case of the bank channel, the banks of greatest interest apart from cooperative banks are the State Bank of India and Punjab National Bank (see Display 67), and in the case of the life insurance channel the Life Insurance Corporation of India has well over 90% of all low income insured persons as its customers (see display 70). These few institutions together with India Post therefore are ideally positioned to provide a conduit to a quarter or more of all low income workers in the country for whatever purposes are deemed efficacious.

Display 41: Penetration of Financial Instruments Among Urban and Rural Low Income Workers

Savings Channel	Urban	Rural
	Percent with savings in the instrument	
Bank savings	27	19
Life insurance	19	12
Postal savings	7	4
Gold	3	3
Chit funds/NBFCs	3	3
Community based thrift & credit schemes	2	7

Display 42: Penetration of Financial Instruments Among Low Income Workers Within Gender

Savings Channel	Male	Female
	Percent with savings in the instrument	
Bank savings	22	12
Life Insurance	15	8
Postal savings	5	4
Community based thrift & credit schemes	4	16
Chit funds/NBFCs	3	3
Gold	3	4

Display 43: Penetration of Financial Instruments In Different Age Groups of Low Income Workers

Savings Channel	Under 25 years	25 - 34 years	35 - 44 years	Over 45 years
	Percent with savings in the instrument			
Bank savings	14	19	22	23
Life Insurance	11	14	17	11
Community based thrift & credit schemes	6	5	6	6
Postal savings	3	5	6	5
Chit funds/NBFCs	3	3	3	2
Gold	3	3	3	3

Display 44: Penetration of Financial Instruments Across the Settlement Sub-structure

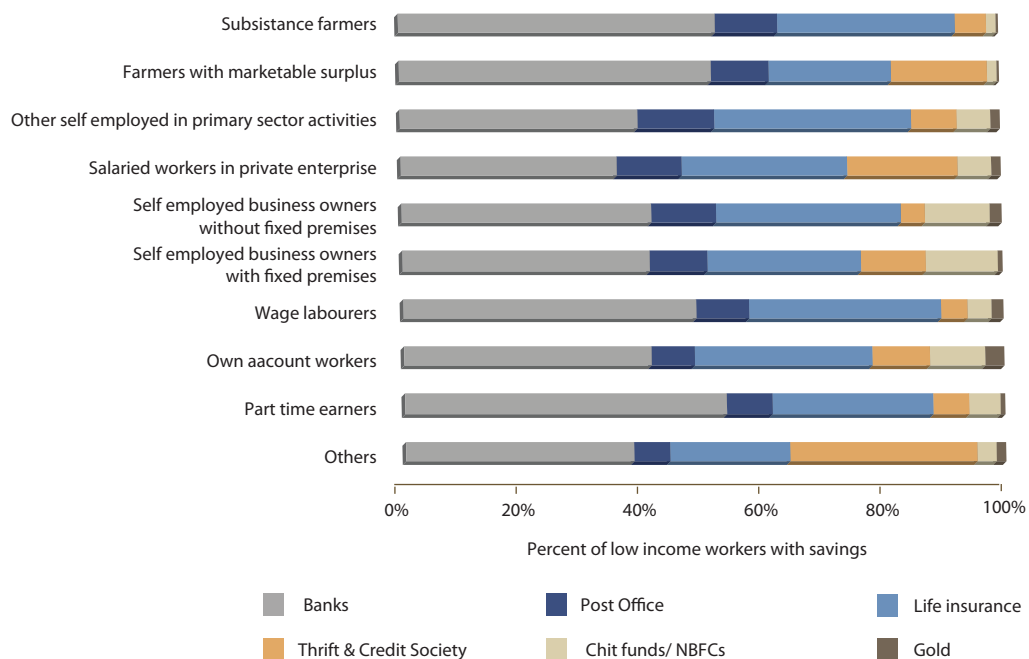
Savings Channel	Rural areas	Smaller towns	Class I towns	Metros
Percent with savings in the instrument				
Bank savings	19	24	29	34
Life Insurance	12	19	20	18
Community based thrift & credit schemes	7	3	2	1
Postal savings	4	7	8	5
Chit funds/NBFCs	3	4	4	1
Gold	3	4	3	6

Display 45: Cross Market Savings of Low Income Workers In Various Savings Instruments

Savings instruments	Bank customers	Postal savings customers	Life insurance customers	Thrift & credit group members	Chit funds/NBFCs customers	Gold investors
Percent with savings in the instrument						
Bank savings	100	37	45	20	25	27
Postal savings	8	100	11	5	8	9
Life Insurance	30	32	100	15	22	25
Community based thrift & credit schemes	6	6	6	100	9	10
Chit funds/NBFCs	4	5	5	5	100	3
Gold	4	6	6	5	3	100

Display 46: Distribution of Aggregate Savings Flows of Low Income Workers in Different Asset Classes

Asset class	Rural	Total Urban	Metro cities	Class I towns	Smaller towns
Percent of total savings in 2007					
Bank savings	61	66	74	66	63
Life Insurance	17	16	12	15	18
Postal savings	11	11	8	11	12
Gold investments	5	3	No estimate available	1	1
Chit funds & NBFC savings	3	3	5	3	3
Community based thrift & credit schemes	3	1	No estimate available	4	3

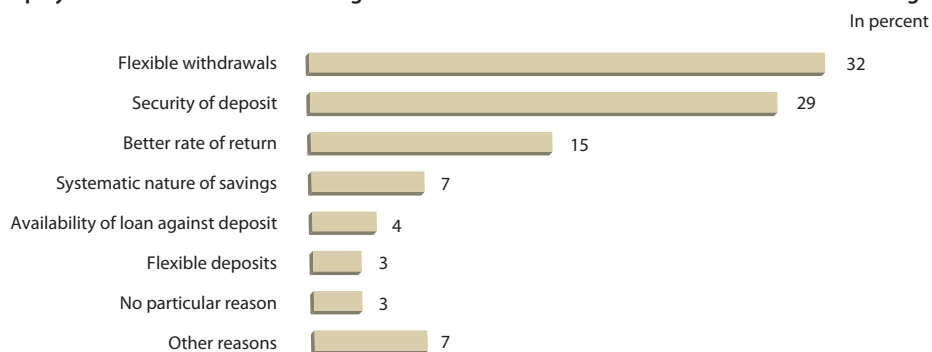
**Display 47: Preferred Savings Instruments of Low Income Workers Across Different Occupation Groups**

**Display 48: Preferred Bank Savings Products of Low Income Workers With Bank Savings**

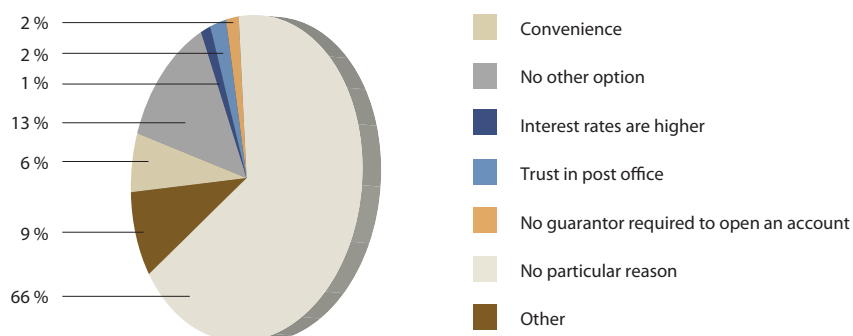
In percent

	Urban	Rural	Overall
Passbook saving account	96	98	97
Recurring deposits	3	Valid estimate not possible	2
Fixed/ time deposits	1	Valid estimate not possible	1
Public provident fund	1	Valid estimate not possible	1

Note: Column values exceed 100% as some persons have more than one account

**Display 49: Main Reasons Bank Savings Are Attractive to Low Income Workers With Bank Savings**

**Display 50: Reasons For India Post Being a Preferred Savings Institution of Low Income Workers**

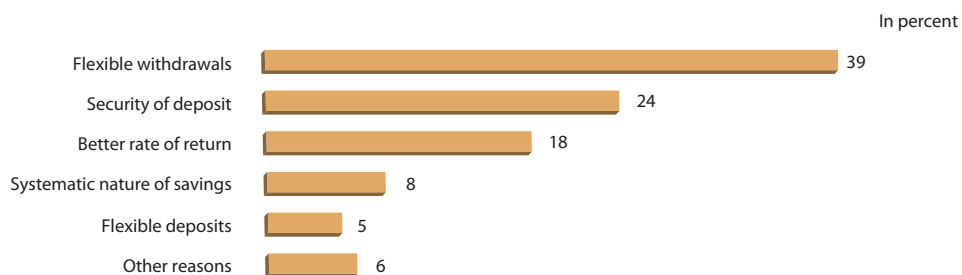


**Display 51: Preferred Postal Savings Instruments of Low Income Workers Who Save With The Post Office**

	In percent		
	Urban	Rural	Overall
Passbook savings account	72	69	70
Recurring deposits	18	18	18
Fixed/ Time deposits	4	Valid estimate not possible	5
Monthly Income Schemes	Valid estimate not possible	Valid estimate not possible	2
Kisan Vikas Patra	7	Valid estimate not possible	7

Note: Column values exceed 100% as some persons have more than one account

**Display 52: Main Reasons Postal Savings Are Attractive to Low Income Workers Who Save With the Post Office**





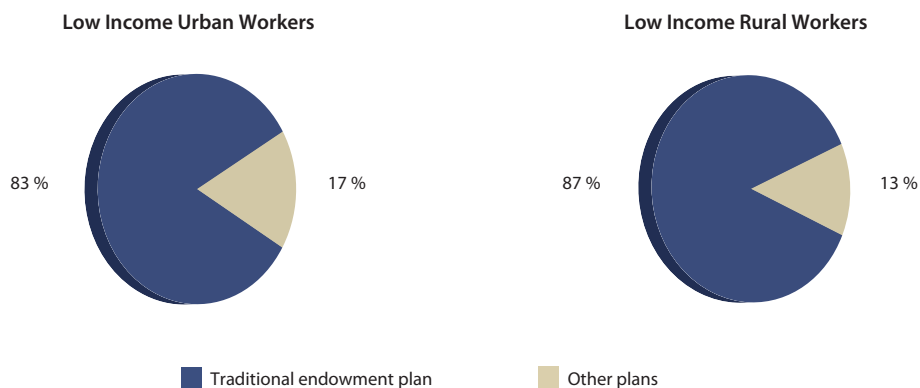
Display 53: Main Reasons Low Income Workers Do Not Have Life Insurance

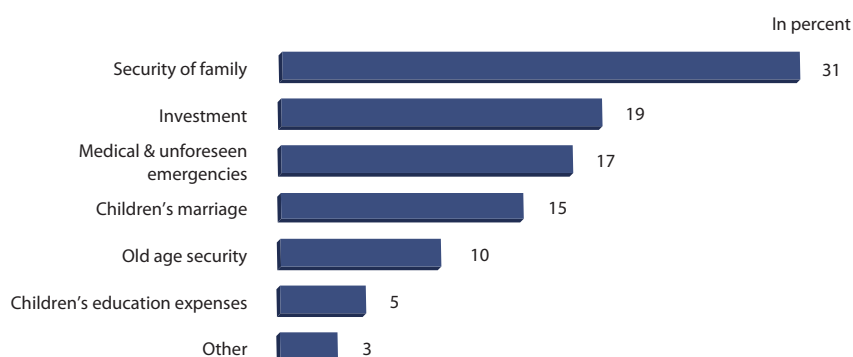
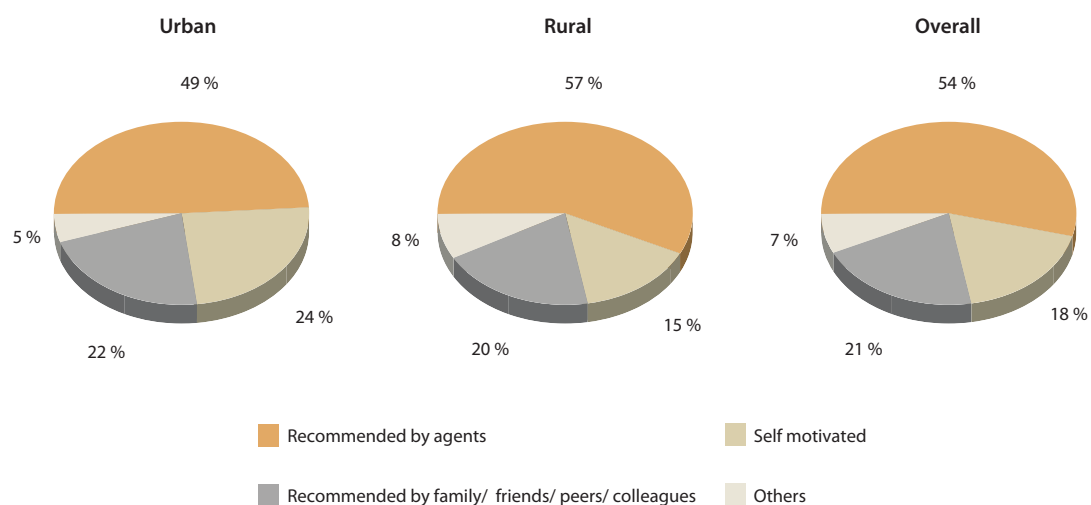
In percent

	Urban	Rural	Overall
Cannot afford	77	81	80
Never considered this carefully	13	11	12
Not interested	9	8	8
Bought once but the policy lapsed	7	5	6
No one has ever explained the benefits	3	3	3
Poor investment	2	3	2
Do not understand how it works	2	4	4
Prefer other investments	1	1	1

Note: Multiple responses possible, percents will not add to 100.

Display 54: Plan Type Preferences



**Display 55: Savings Motivations of Low Income Workers Behind Buying a Life Insurance Plan****Display 56: How Low Income Workers Were First Convinced To Buy Life Insurance****Display 57: Perceptions of Low Income Workers As to the Adequacy of Their Life Insurance Cover**

Self perception on adequacy of cover level	Urban low income workers		Rural low income workers		All low income workers	
	Percent with perception	Average premium value (Rupees)	Percent with perception	Average premium value (Rupees)	Percent with perception	Average premium value (Rupees)
Adequate	58	2,850	60	2,270	59	2,469
Inadequate	19	2,864	14	2,401	16	2,592
No opinion	23	2,873	26	2,397	25	2,558

**Display 58: Average Annual Savings Flows of The Low Income Workers Who are Saving In The Instrument**

In Rupees

Savings instrument	Urban	Rural
Gold	6,000	4,100
Postal savings	3,000	2,200
Life Insurance	2,800	2,300
Bank deposits	2,400	1,500
Community based thrift & credit schemes	1,400	700
Chit funds & NBFCs	900	400

**Display 59: Estimated Aggregate Annual Savings Flows of Low Income Workers Into Different Savings Instruments**

In Rupees crore

Savings instrument	Urban low income workers	Rural low income workers	All low income workers
Bank savings	1,227	1,477	2,704
Life insurance premium flows	1,065	1,585	2,650
Postal savings	364	491	854
Gold investments	212	473	684
Savings in Thrift and credit groups	58	257	315
Savings in chit funds/NBFCs	54	73	127
Total	2,979	4,356	7,335

**Display 60: Estimated Aggregate Savings Accumulations of Low Income Workers In Different Savings Instruments**

In Rupees crore

Savings instrument	Urban low income workers	Rural low income workers	All low income workers
Life insurance*	9,465	13,769	23,208
Bank savings	2,371	2,248	4,620
Postal savings	1,132	1,037	2,169
Savings in Thrift and credit groups	160	589	749
Savings in chit funds/NBFCs	124	232	356
Totals	13,252	17,876	31,101

\* Life insurance accumulations are calculated on the basis of current insurance premiums paid, which may not hold true in each and every individual case

Display 61: Proportion of Low Income Workers Utilising Informal Savings Instruments

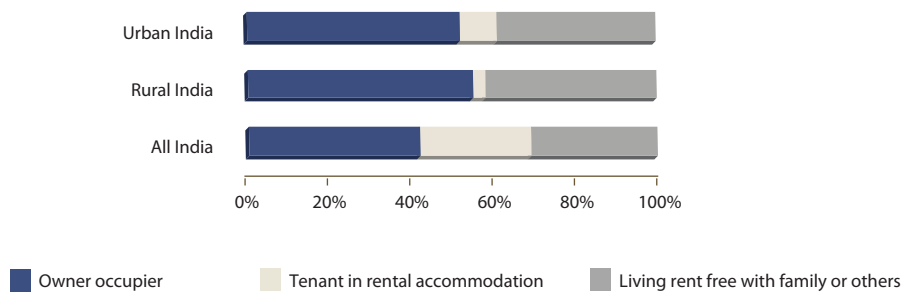
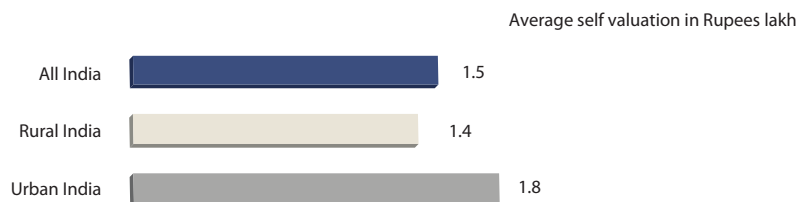
In percent

Gender	Thrift and credit societies	Chit funds/ NBFCs
Males	4	3
Females	17	3
<b>Geographical Distribution</b>		
Rural areas	7	3
Smaller towns	3	4
Class I towns	2	4
Metro cities	2	3
<b>Regional Distribution</b>		
Northern Hilly States	3	Less than 1
North Western States	1	1
North Eastern States	13	15
Central and Northern States	1	1
Eastern States	7	4
Western States	3	1
Southern States	10	2
<b>Total</b>	<b>6</b>	<b>3</b>

Display 62: Savings Motivations of Low Income Workers Using Informal Savings Channels

In percent

Savings motivations	Urban	Rural	Total
Better rate of return	38	34	33
Systematic nature of savings	25	16	17
Security of deposit	18	18	18
Liquidity	18	24	24
Availability of loan against deposit	14	26	24
Flexibility of deposit	10	7	7
Flexibility of small deposit	8	11	10
No particular reason	6	7	7
Only option available	1	1	1

**Display 63: Existing Home Ownership Status of Low Income Workers****Display 64: Self Valuation of Residential Properties by Low Income Workers****Display 65: Low Income Workers Hoping to Buy a Residential Property in the Next Two Years**

Location of buyers	Number of workers (Lakhs)	Percent of all low income workers	Average budget (Rupees lakh)
Rural	9.7	1.7	1.1
Smaller towns	1	1	1.6
Class1 towns	1.3	1.6	1.7
Super-metros	0.3	1.7	2.4
Total	12.3	1.6	1.2

Table 66: Channel Access to Low Income Workers

State	Millions of Low income workers who can be reached				% of Low income workers who cannot be reached through any of these channels
	Through bank channels	Through life insurance	Through Postal savings	Through SHGs	
Andhra Pradesh	0.65	1.00	1.65	0.71	40
Assam	0.43	0.36	0.12	0.35	65
Bihar	1.75	1.10	0.38	*	70
Chhattisgarh	0.18	0.18	0.10	*	76
Delhi	0.07	0.07	*	*	48
Gujarat	0.76	0.34	0.12	*	70
Haryana	0.14	0.08	*	*	72
Northern Hilly States	0.10	0.04	0.02	*	63
Jharkhand	0.76	0.34	0.13	*	68
Karnataka	1.10	0.08	0.24	0.32	62
Kerala	0.14	0.14	0.06	*	26
Madhya Pradesh	0.70	0.38	0.11	*	75
Maharashtra & Goa	0.87	0.44	0.18	0.16	50
North Eastern States	0.07	0.02	0.03	*	61
Orissa	1.10	0.76	0.35	0.49	65
Punjab & Chandigarh	0.06	0.03	*	*	56
Rajasthan	0.40	0.28	0.01	*	78
Tamil Nadu	0.67	0.87	0.38	0.46	78
Uttar Pradesh	3.80	1.27	0.26	*	64
West Bengal	2.20	1.97	0.85	0.99	59
<b>All India</b>	<b>15.95</b>	<b>9.75</b>	<b>2.74</b>	<b>3.6</b>	<b>66</b>

\*: no estimate available

Display 67: Main Bank Brand Attachments of India's Low Income Workers

Andhra Pradesh	Assam	Bihar	Chhattisgarh
Allahabad Bank	State Bank of India	Cooperative Banks	State Bank of India
State Bank of India	Cooperative Banks	State Bank of India	
State Bank of Hyderabad	UCO Banks	Bank of India	
Delhi	Gujarat	Haryana	Himalayan states
Punjab National Bank	Bank of Baroda	Punjab National Bank	no estimate available
	State Bank of India		
	Dena Bank		
Jharkhand	Karnataka	Kerala	Madhya Pradesh
State Bank of India	Industrial Development Bank of India	Cooperative Banks	State Bank of India
Bank of India	United Bank of India	State Bank of Travancore	Cooperative Banks
Cooperative Banks	State Bank of Indore		Allahabad Bank
Maharashtra & Goa	North Eastern states	Orissa	Punjab and Chandigarh
Cooperative Banks	State Bank of India	State Bank of India	no estimate available
State Bank of India		Cooperative Banks	
Bank of Maharashtra			
Rajasthan	Tamil Nadu	Uttar Pradesh	West Bengal
Cooperative Banks	State Bank of India	Cooperative Banks	Cooperative Banks
State Bank of Bikaner and Jaipur	Indian Bank	State Bank of India	State Bank of India
Punjab National Bank	Cooperative Banks	Punjab National Bank	United Bank of India

Display 68: Penetration of Postal Savings by Settlement Sub-Structure

Town Class	Low Income Workers having postal savings (in Million)	Percent of postal savings customers
Rural areas	2.40	65
Cities/ towns with population below 1 lakh	0.64	17
Cities with a population of 1 lakh to 10 lakhs	0.57	16
Metro cities with population above 10 lakhs	0.09	2
<b>Total</b>	<b>3.70</b>	<b>100</b>

Display 69: Penetration of Postal Savings by Different Age Groups

Age groups	Low Income Workers having postal savings (in Million)	Percent of postal savings customers
18 to 25 years	0.28	8
26 to 29 years	0.31	8
30 to 35 years	0.92	25
36 to 40 years	0.90	24
Over 40 years	1.29	35
<b>Total</b>	<b>3.70</b>	<b>100</b>



Display 70: Reach of LIC Among the Low Income Workforce in India

State	Number of low income workers with life insurance policies (In millions)	LIC Share of total low income insurance customers (Percent)
West Bengal	1.9	98
Uttar Pradesh	1.3	99
Bihar	1.1	99
Andhra Pradesh	1.0	98
Karnataka	0.9	96
Haryana	0.8	97
Orissa	0.7	92
Tamil Nadu	0.6	89
Delhi	0.6	99
Maharashtra & Goa	0.4	98
Assam	0.4	99
Himalayan States	0.4	98
Jharkhand	0.3	99
Madhya Pradesh	0.3	99
Gujarat	0.3	93
Punjab & Chandigarh	0.3	99
Rajasthan	0.3	94
Chattisgarh	0.2	99
Kerala	0.1	99
North Eastern States	No estimate available	99
<b>Total</b>	<b>11.9</b>	<b>97</b>

## 5. Debt Positions of India's Low Income Workforce

In aggregate terms, low income rural workers are twice as prone to debt as their urban counterparts and in some States, Andhra Pradesh, Kerala, Punjab and Tamil Nadu, more than half of all low income rural workers have taken loans for various purposes in the past two years. In urban areas, loan taking is heaviest in these States also with Assam, Bihar and Orissa also joining this group of heavy urban borrowers. In five additional States (Assam Bihar, Karnataka, Rajasthan and West Bengal) at least one third of low paid rural workers have also taken loans in the past two years indicating that debt burdens in these States are also of major concern (see Display 75).

From the IISS data it also appears likely to be the case that many loans are sticky loans that are not paid off quickly or are rolled over regularly if they are, as the proportion of those who have taken debt in the past two years and those who remain in debt are roughly equivalent both in aggregate terms in location specific terms (see Display 76). As the attraction of a low income worker to a lender as a long-term debtor generally would be more limited, the more likely situation is that many borrowers while taking loans for reasonably short periods also roll over the debt regularly creating a debt dependency cycle of sorts that would be difficult for many borrowers to break.

Numerically, wage labourers, marginal primary producers and own account workers in rural areas account for around 80 percent of all debtors (see Display 77). The incomes of these particular groups are also on the lower end of the low income scale indicating that there is a

strong correlation between low earnings and debt prone behaviour.

Moreover, average outstanding debt levels for these groups are well in excess of six months of earnings, and for a significant number in excess of a full year's earnings (see Display 78 & 79). It is difficult to argue in these circumstances therefore that these workers are not in a debt trap that they have little prospect of escaping unassisted. This is doubly the case when the rates of interest paid for loans from non-bank sources are considered. For all non-bank sources, including loans through family and friends, the majority of loans carry a minimum interest rate equivalent to at least 24% annually and considerably more in many cases (see Display 81).

Despite a borrower preference for sourcing loans, including emergency loans, from relatives or friends or banks, a significantly disproportional number continue to source debt in practice with moneylenders in both rural and urban areas, with only very small numbers finding the credit they require through community based lending institutions (see Display 72). Presumably the non-availability of loans from other than moneylender sources for many low income workers is a major part of the explanation for this being the case, but the IISS data show that there are other considerations also in the minds of borrowers apart from interest payable that can drive a borrower towards one lender rather than another.

The two main purposes that both rural and urban low income borrowers take loans are to deal with unexpected emergencies or for business or livelihood purposes, with the former being somewhat more important in rural areas and the latter being somewhat more important in urban areas. Loans for daily consumption purposes take up rather less than some might imagine and represent only 15 percent of all loans taken by rural borrowers in the past two years and 16 percent of loans taken by low income urban borrowers (see Display 71). Having said that, it is likely that some proportion of loans identified by the survey respondents as being for emergency purposes in fact are consumption loans.

While the banks and other formal sector lenders are often seen as a root cause of low income workers being driven into the arms of less affordable credit providers, the pattern of bank loans to low income workers indicates that bank finance is available for other than collateral

based loans but obviously not in the quantity required to meet the demand for such loans that exists (see Display 73). In addition, the formalities of the loans process followed by formal lenders and the time taken to give loan approvals obviously are seen by some borrowers as deterrents to using formal loan channels.

Where loans are for a short duration only, the data suggest that interest payable is a lesser concern for borrowers than it is when a loan is for a longer term, and this remains the case irrespective of whether loans are sourced with formal or informal lenders. For short term loans, including those taken from formal borrowers such as banks, there appears to be willingness on the part of some borrowers to accept higher interest charges in return for a speedier loan approval. The degree of privacy with which loan transactions are conducted and achieving a manageable repayment schedule are at least as important to many borrowers as interest payable (see Display 74).

It is also important to recognise that the issue of debt burdens for low income workers needs to be seen as a demand side as well as a supply side issue in that the incomes of low income workers are simply inadequate for coping with life's exigencies. The availability and affordability of credit is a symptom of a larger disease. In other words, in public policy terms it is important to recognise that the central issue is not the availability and cost of credit, but how to boost the incomes of these workers to more adequate levels so that the need to resort to borrowing is reduced. More effective wages and employment policy is required if this is to occur.

An associated public policy issue is the absence of social safety nets in India to assist low income workers and their families in times of predictable emergencies such as an interruption to earnings occasioned by accidents or suffering serious health problems. It is also very disturbing that some low income workers need to resort to borrowing to educate their children because the public education system has failed them, a situation which would, if left uncorrected, doom the next generation of the children of low income workers to the same fate as their parents.

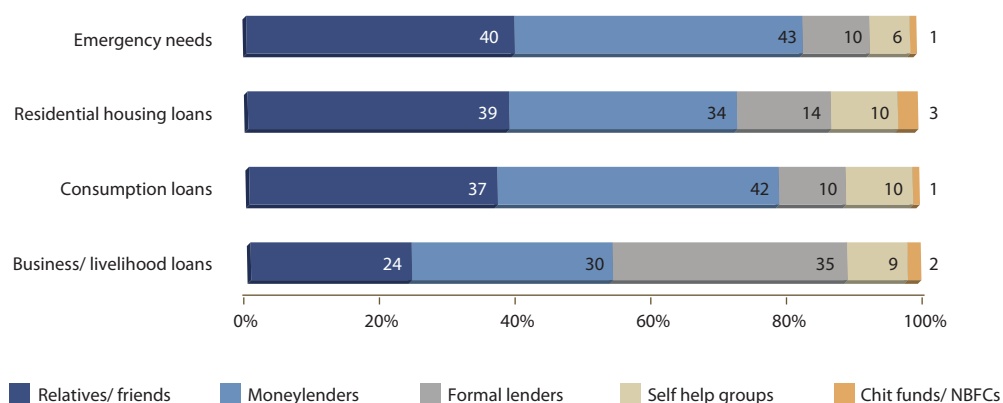
Display 71: Purposes of Loans Taken by Low Income Workers in Last 2 Years

Purpose of Loan(s)	In percent	
	Urban	Rural
Emergency needs	73	72
Business/ livelihood loans	17	24
Consumption loans	16	15
Residential housing loans	11	8

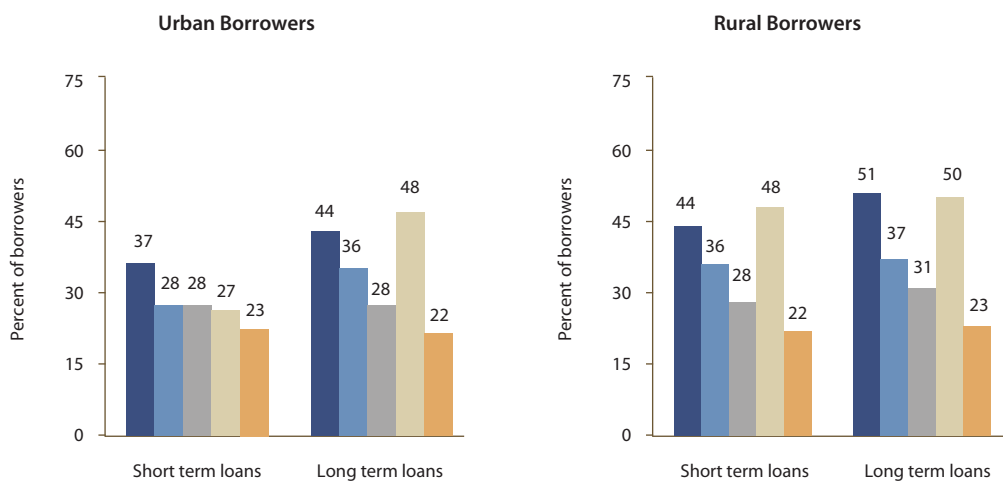
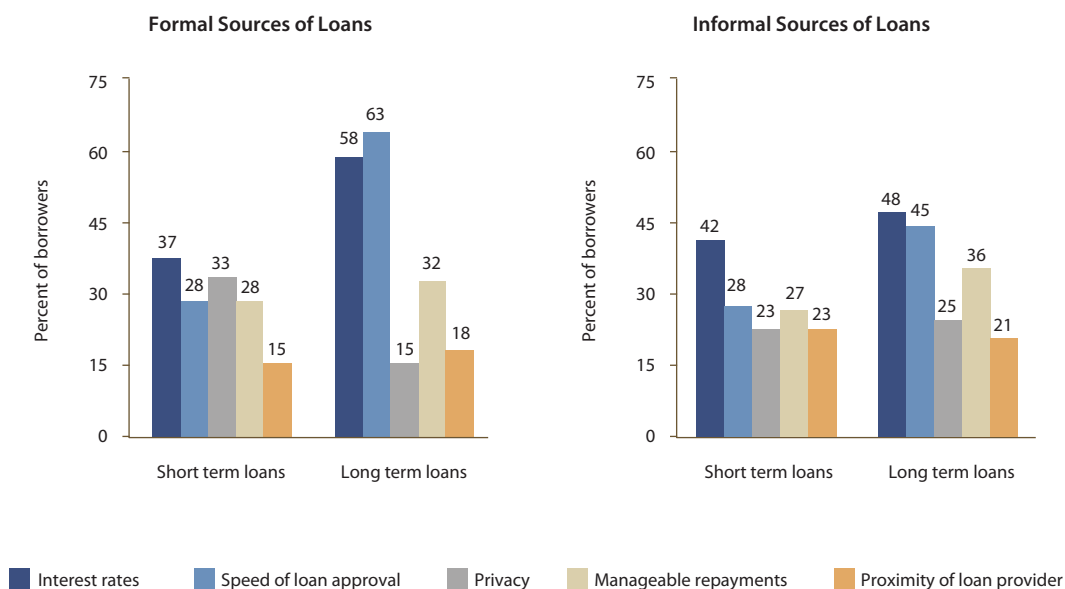
Display 72: Loan Sources for Different Puposes of Loans Taken by Low Income Workers In Last 2 Years

Annual Incomes	In percent							
	Residential housing loans		Consumption loans		Business/ livelihood loans		Emergency needs	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Relatives/friends	37	46	35	48	21	37	37	48
Moneylender	35	29	44	29	30	37	45	34
Formal lenders	No estimate available	18	10	14	38	17	10	8
Self Help Group	No estimate available	No estimate available	10	No estimate available	9	No estimate available	6	7
Chit fund/NBFCs	No estimate available	No estimate available	1	No estimate available	2	No estimate available	1	2

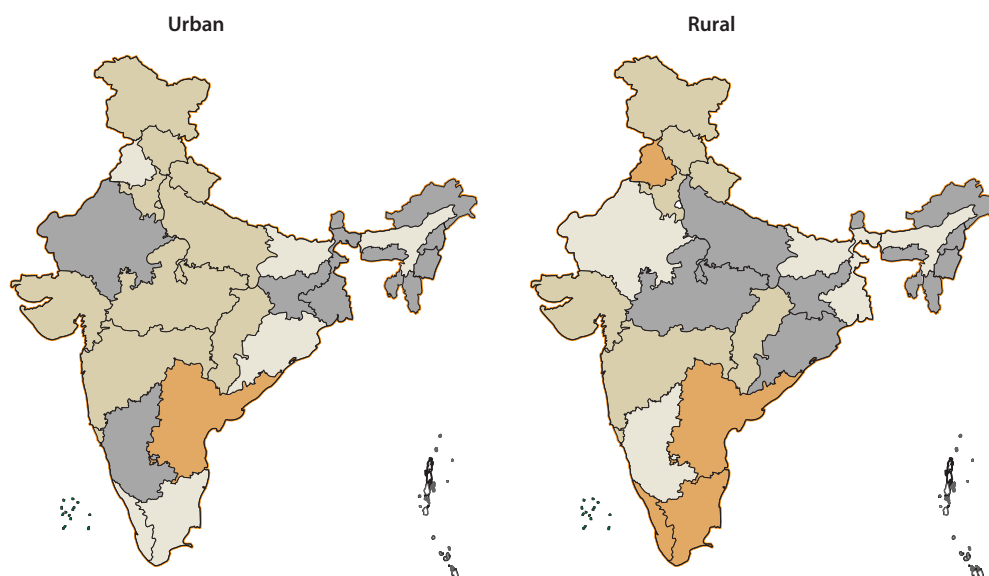
Display 73: Distribution of Low Income Workers by Loan Source and Purpose of Loans



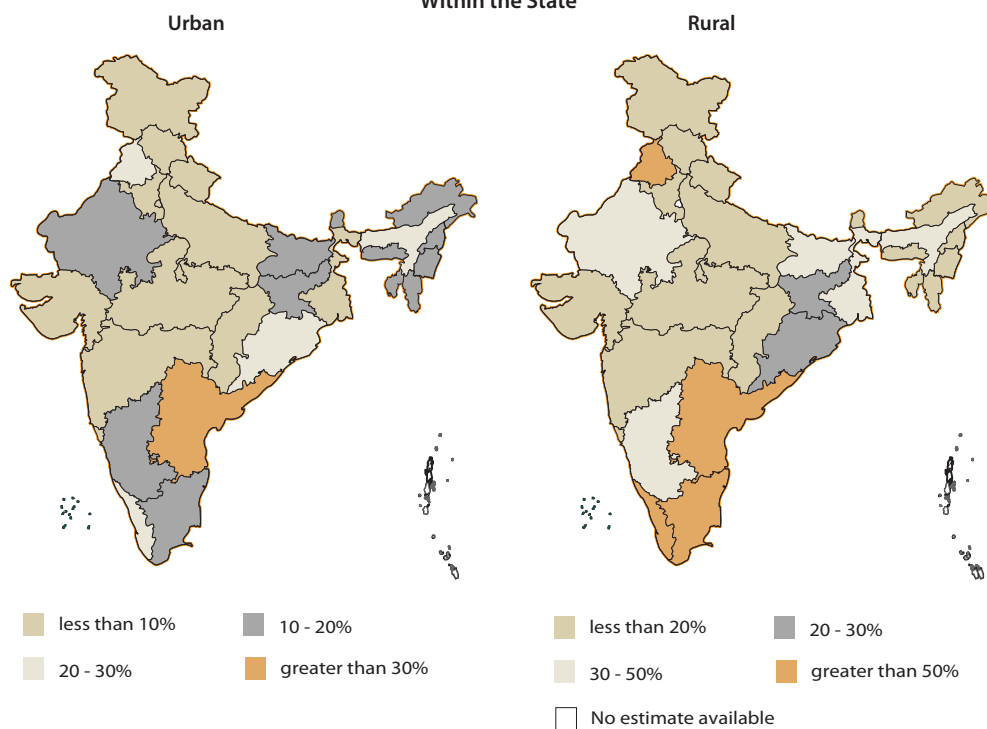
Display 74: Main Factors Affecting Choice of Loan Provider



Display 75: Proportion of Low Income Workers Who Have Taken Loans in Past 2 Years Within the State



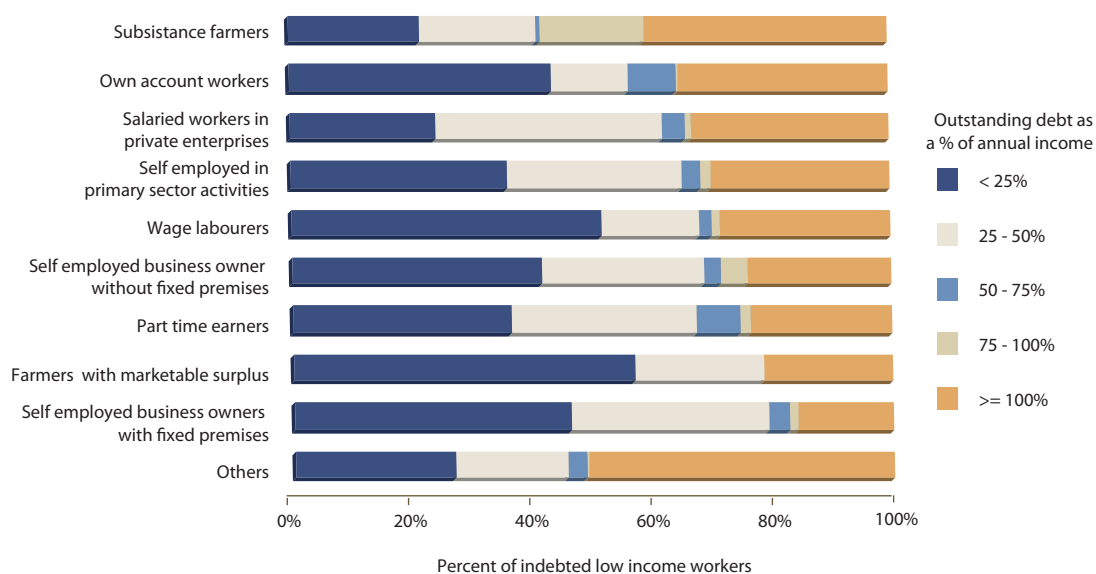
Display 76: Proportion of Low Income Workers Who Are Indebted From the Loans Taken in Past 2 Years Within the State



Display 77: Occupational View of Low Income Workers Who Have Taken Loans in Last Two Years

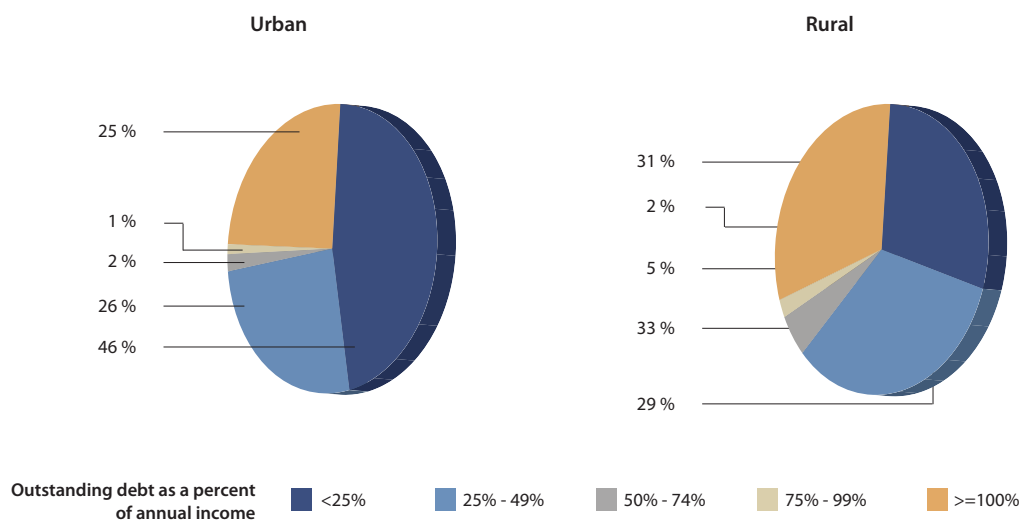
Occupation groups	Percent in the occupation group with outstanding debts	Millions of workers
Wage labourers	28	9.1
Subsistence farmers	36	1.3
Other self employed in primary sector activities	32	0.3
Farmers with marketable surplus	25	3.5
Self employed business owners without fixed premises	26	1
Self employed business owners with fixed premises	21	0.7
Own account workers	21	2.6
Salaried workers in private enterprise	15	0.4
Part time earners	10	0.3
Others	18	0.1
<b>Total</b>	<b>25</b>	<b>19.3</b>

Display 78: Debt to Income Ratios of Low Income Workers Across Different Occupation Groups





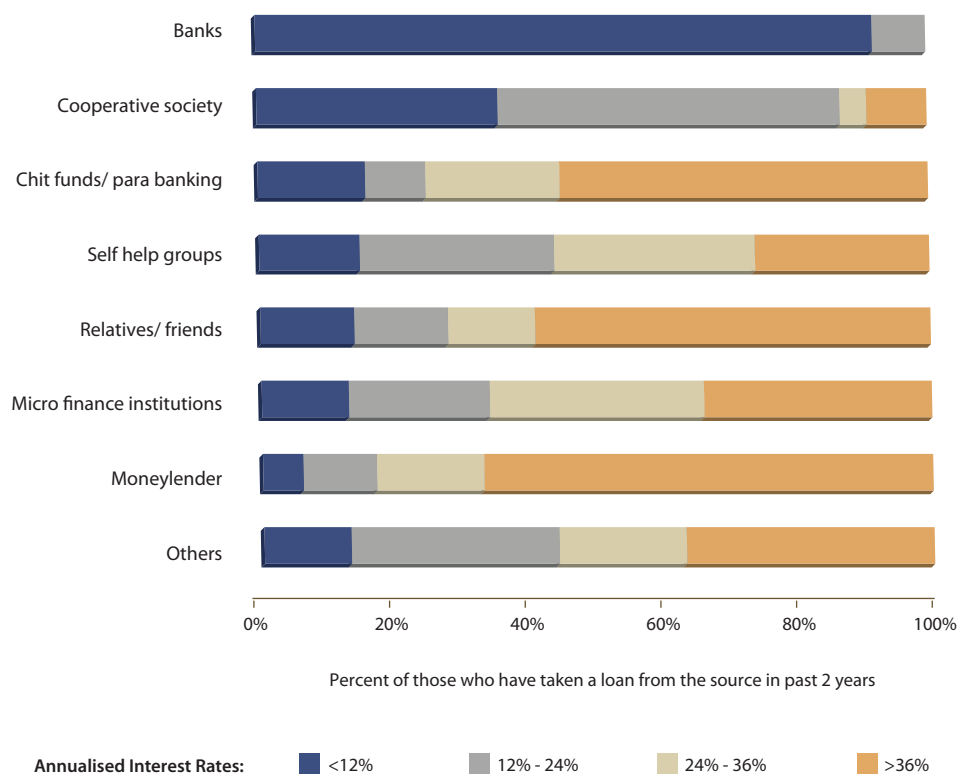
Display 79: Debt to Income Ratio of Low Income Workers in Urban and Rural Locations



Display 80: Loan Sourcing of Low Income Workers Across Urban Substructure

Loan Source	Metro cities with population above 10 lakhs persons	Cities with population of 1 lakh to 10 lakh persons	Cities/ towns with a population below 1 lakh persons
Relatives/friends	56	48	47
Moneylenders	26	32	36
Formal lenders	No estimate available	9	7
Cooperative society	No estimate available	No estimate available	No estimate available
Self Help Group	No estimate available	4	9
Chit fund/para-banking	No estimate available	No estimate available	No estimate available
Micro finance institution	No estimate available	No estimate available	No estimate available
Other	No estimate available	3	No estimate available

In percent

**Display 81: Interest Charges on Loans Taken by Low Income Workers in the Past Two Years**

## 6. Financial Literacy Levels Among India's Low Income Workforce

For low income people the effective utilisation of money is most critical both to derive full value for what little money they have, and because any ill advised financial decisions can have disastrous consequences.

However, having financial resources and managing them well are two different problems and the health of a person's financial situation, both in terms of meeting daily living needs and acquiring assets, depends on both being in place. In other words, a person with a modest income who manages it well can find they have fewer financial difficulties in life than a person with a higher income who does not. For this reason, being concerned with financial literacy levels in the low income population and seeking to put in place practical measures to raise those levels can make a valuable contribution to the lives and welfare of low income workers. As such, financial literacy rightly belongs in the suite of issues that need to be taken seriously in a financially inclusive system.

IISS 2007 is the first pan-India survey to collect information on the vitally important issue of financial literacy levels in the working population. While the financial literacy topics explored in IISS 2007 are selective in nature and do not attempt to be comprehensive, they do provide the first windows of empirical understandings on a number of important questions concerning low income groups and their effective utilisation of money.

The keystone of a secure financial situation is the ability to budget one's income effectively because if this is not done a person will struggle with

meeting the costs of daily living, much less managing to make savings and acquire assets. For this reason IISS 2007 asked respondents to what extent they are able to budget household expenses effectively. In the case of low income earners, 56 percent of male earners and, consistent with their generally lower incomes, 62 percent of women earners reported that they are unable to budget for regular household expenses effectively). The situation in rural India, where 60 percent of earners were in this situation, is appreciably worse than in urban India where this percentage, while lower, but nonetheless still at the alarmingly high level of 48 percent. Moreover, a reasonably consistent pattern can be observed across age groups indicating that the problem is not age specific (see Display 82).

Doubtless this outcome is mainly a function of the low incomes that workers have, but given that others in a similar situation are able to budget consistently well (23% of male earners and 18% of female earners) a significant part of the problem at least appears to lie in a lack of basic financial literacy skills. Equally and more alarming are the downstream consequences of this, as 67 percent of those unable to budget have no savings whatever and 26 percent have debts that on average equate to 95 percent of a full year's average earnings.

The obverse of this situation is that only 6 percent of low income workers has as their first priority when they receive any income payment to put aside at least some savings. (see Display 83). However, individuals who have this as their first priority are in fact the ones who over time manage to build up a savings corpus and acquire assets that ultimately assure them of a higher living standard and a greater degree of financial security. IISS data also bear this out, as the group that has as its first priority making at least some regular savings have higher savings corpuses than the average for the group, and manage to acquire a greater number of household assets as well. A useful strategy for combating poverty and privation among low income workers therefore would be for Government and other interested parties to sponsor basic household budgeting initiatives to assist low income workers position themselves to manage their incomes better.

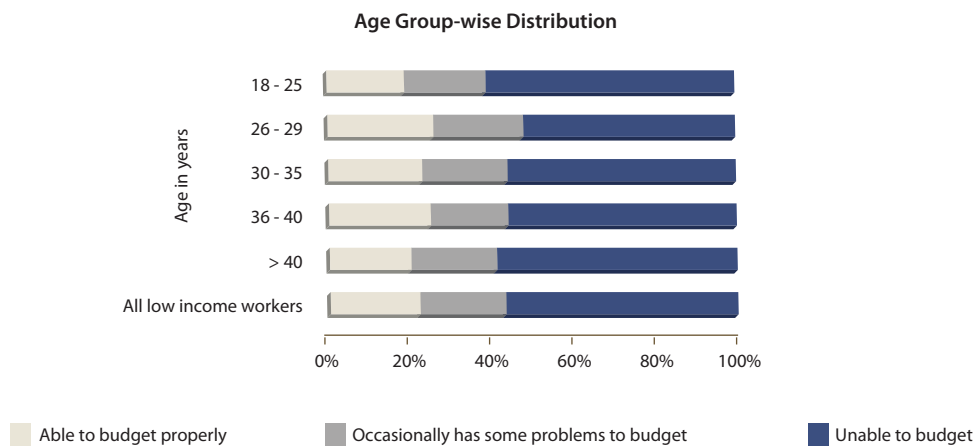
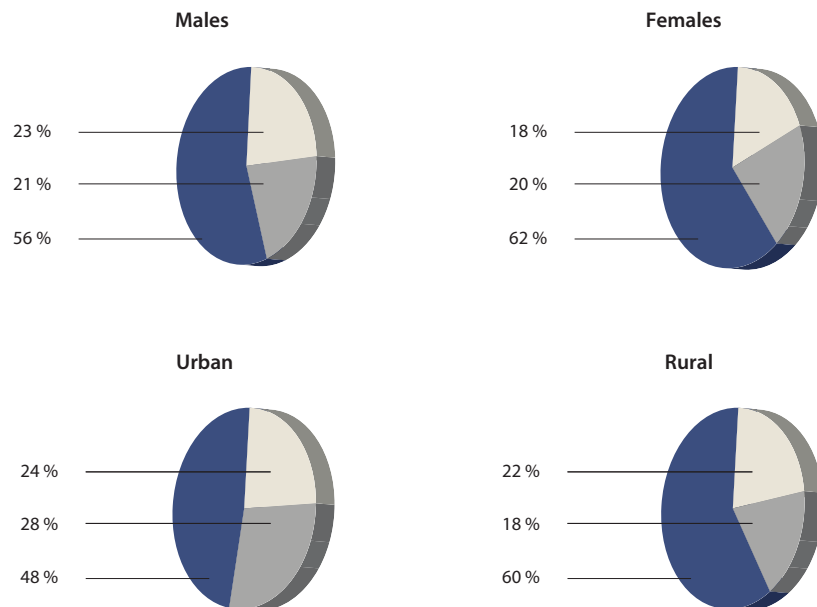
An important financial literacy marker for low income groups is the extent to which they understand how to source small loans at affordable interest rates. In this regard, low income workers in general terms at

least seem to be tuned in to the correct view of this issue with seven in ten preferring to take small loans from relatives and friends or banks when these sources are available to them. Community based thrift and credit arrangements that generally charge very high interest are not favoured by more than one in twenty low income earners (see Display 84). Encouragingly, a similar pattern of loan preference is observed for sourcing loans in a financial emergency, indicating that in times of great stress borrower behaviour does not change significantly (see Display 85). However, one in eight still appears to prefer taking small loans from moneylenders, some no doubt because they have no other alternative but in other cases under a misguided belief that the speed and convenience with which funds can be obtained from moneylenders is worth the cost. It also appears to be the case that no more than one percent of low income workers have as their first priority paying off loans indicating that debts once incurred are difficult for most to clear.

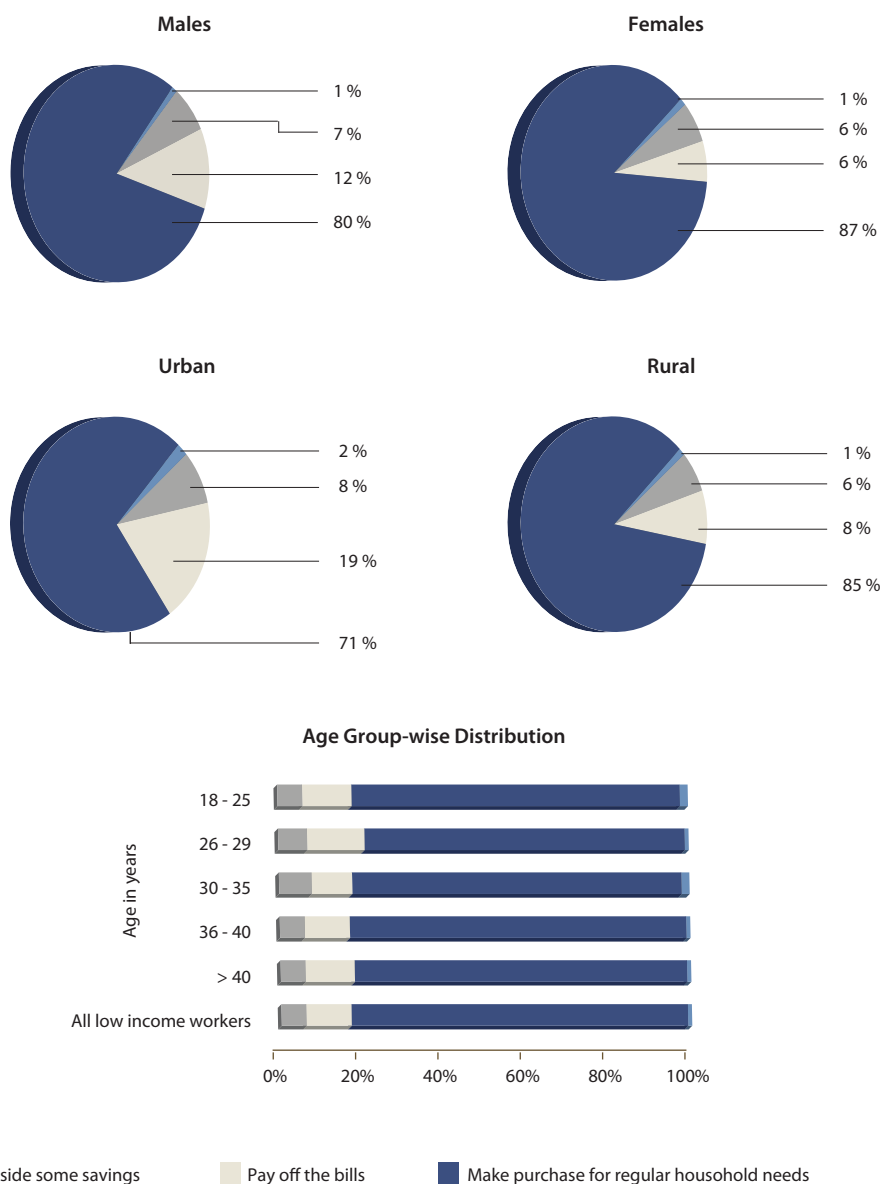
Disturbingly, more than one in ten low income workers reported that they have at some time in the past been the victim of a financial fraud (see Display 86). Men and those in urban areas appear to be more prone to being victimised in this way. While IISS 2007 did not seek details of the particular activities involved, this incidence is sufficiently high to suggest that many low income workers lack the basic financial knowledge to make effective financial decisions. No doubt, for this and other reasons, most (over three quarters of low income workers) believe that it is not possible for them to receive unbiased financial advice from financial product providers or third parties, which means that most remain in a vulnerable state when taking financial decisions where their own knowledge is not sufficiently good to necessarily make the best judgments.

Equally disturbing is that more than half of all low income workers lack understanding of basic financial concepts such as the time value of money and the need to lodge whatever savings they are able to make in financial instruments that insulate their savings best from the effects of inflation(see Display 88). Moreover, the lack of appreciation of this concept is not particularly age sensitive indicating that the problem is endemic and not generational.

Display 82: Household Budgeting Practices of Low Income Earners



Display 83: Spending Priorities of Low Income Workers on Receipt of Any Income Amount



Display 84: Preferred Loan Sources For Small Loans of Workers From Low Income Households

In percent

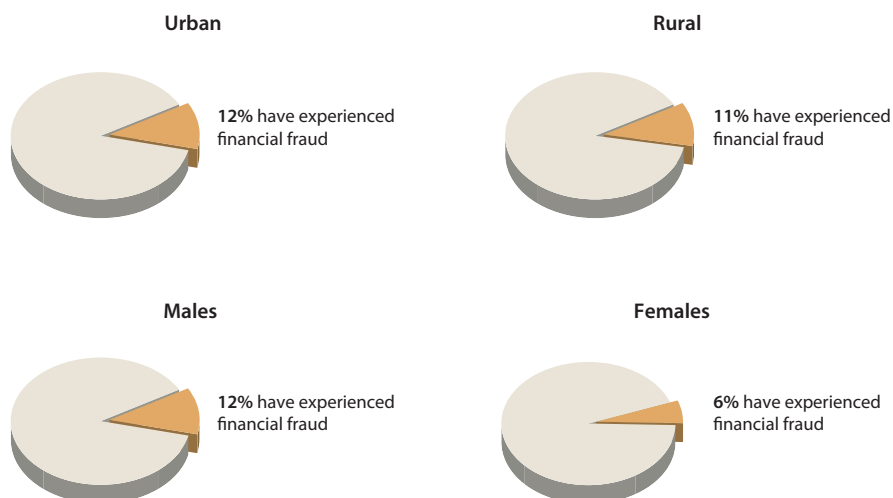
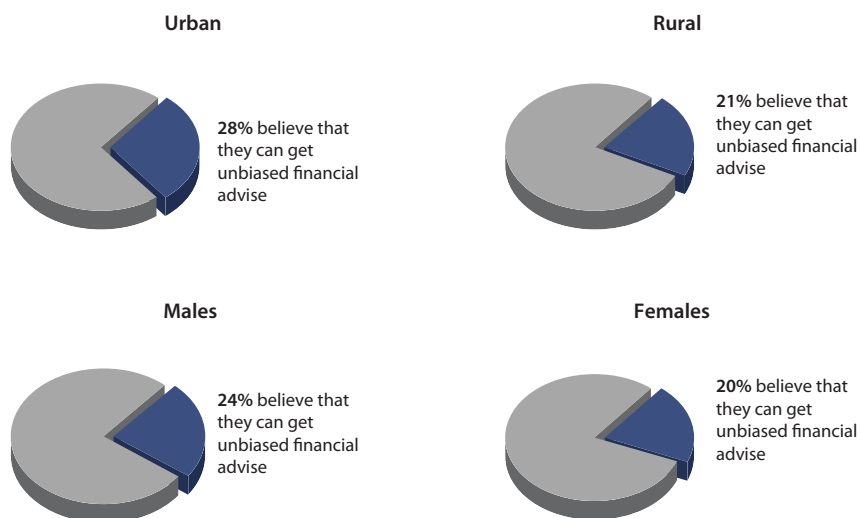
Sources	Geographic Distribution		Geographic Distribution		Total
	Urban	Rural	Male	Female	
Relations & friends	46	47	46	49	47
Banks	28	18	22	12	21
Moneylender	17	26	23	27	23
Thrift and credit group/SHG	2	3	2	7	3
Chit fund	Less than 1	Less than 1	Less than 1	Less than 1	Less than 1
Cooperative society	Less than 1	2	1	1	1
Others	6	4	4	4	4

Display 85: Preferred Loan Sources For Financial Emergencies of Workers From Low Income Households

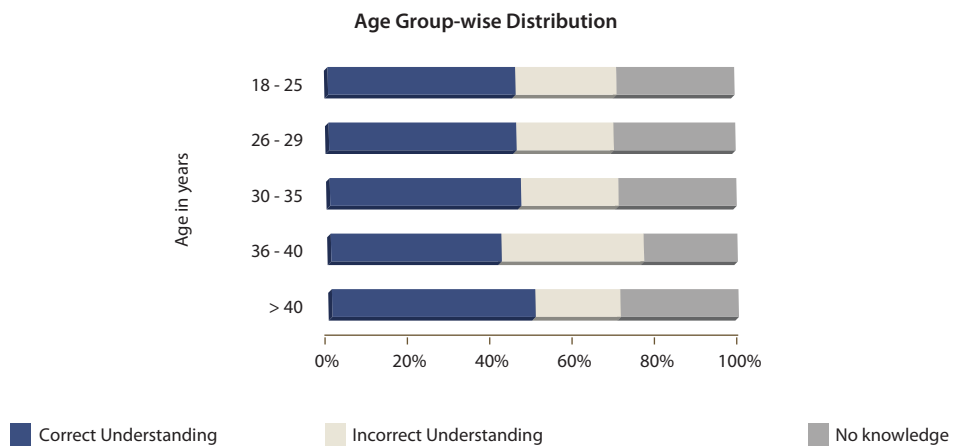
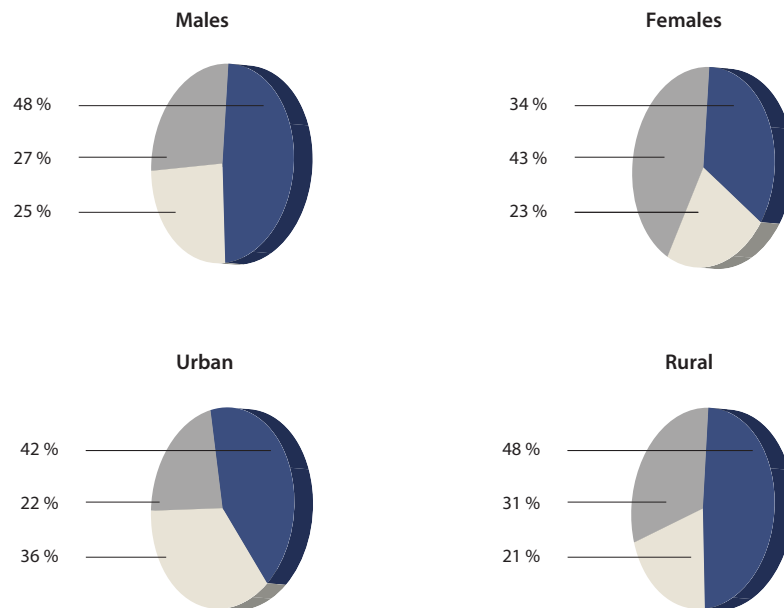
In percent

Sources	Geographic Distribution		Geographic Distribution		Total
	Urban	Rural	Male	Female	
Relations & friends	50	53	53	51	53
Banks	30	11	17	10	16
Moneylenders	14	27	23	25	23
Thrift and credit group/SHG	1	3	2	8	3
Cooperative society	1	2	1	1	1
Others	4	4	4	5	4



**Display 86: Incidence of Financial Fraud Among Low Income Workers****Display 87: Availability of Unbiased Financial Advise Among Low Income Workers**

Display 88: Understanding Among Low Income Workers of the Time Value of Money



## Annexure Tables

**Annexure 1: Average Annual Incomes of Low Income Workers in Different States**

In Rupees

State	Urban	Rural	Total
Andhra Pradesh	28,367	15,634	18,581
Assam	22,346	17,956	18,552
Bihar	22,146	15,976	16,709
Chattisgarh	24,742	20,077	21,642
Delhi	29,060	22,539	28,314
Gujarat	28,486	19,468	22,209
Haryana	29,756	22,830	26,021
Jharkhand	25,138	15,365	16,938
Karnataka	21,020	14,804	16,736
Kerala	20,380	19,420	19,866
Madhya Pradesh	24,593	16,286	18,364
Maharashtra & Goa	27,558	19,927	23,588
North Eastern States	27,147	21,574	24,931
Norther Hilly States	28,992	22,672	25,788
Orissa	23,164	13,186	14,305
Punjab & Chandigarh	30,562	21,975	29,527
Rajasthan	25,571	18,834	20,729
Tamil Nadu	20,569	12,074	16,231
Uttar Pradesh	27,527	18,277	19,979
West Bengal	22,562	12,850	14,985
<b>All India</b>	<b>24,093</b>	<b>15,803</b>	<b>17,880</b>

**Annexure 2: Average Annual Incomes of Low Income Workers in Different Regions By Gender**

In Rupees

Region	Male	Female	Total
Northern Hilly States	26,263	19,669	25,788
North Western States	27,537	22,098	27,152
North Eastern States	19,061	18,960	19,057
Central and Northern States	20,370	14,897	19,906
Eastern States	16,431	10,090	15,586
Western States	23,215	16,997	22,803
Southern States	18,503	11,161	16,883
<b>All India</b>	<b>18,787</b>	<b>11,793</b>	<b>17,880</b>

**Annexure 3: Occupation Distribution of Low Income Workers By Gender**

In percent

Occupation groups	Male	Female	Total
Wage labourers	39.9	56.4	42.0
Farmers with marketable surplus	20.1	5.3	18.1
Own account workers	16.2	16.6	16.3
Self employed business owners without fixed premises	5.6	2.3	5.1
Subsistence farmers	5.3	1.5	4.8
Self employed business owners with fixed premises	4.6	1.8	4.2
Part time earners	2.9	12.1	4.1
Salaried workers in private enterprise	3.8	1.7	3.5
Self employed in primary sector activities other than farming	1.2	1.2	1.2
Others	0.6	1.2	0.7

**Annexure 4: Purposes of Loans of Low Income Workers Who Have Taken Loan(s) in Last 2 Years**

Percent of those who have taken loans

State	Emergency needs	Business/ livelihood loans	Consumption loans	Residential housing loans
Andhra Pradesh	74	8	11	8
Madhya Pradesh	68	15	13	4
Tamil Nadu	67	11	15	7
Bihar	65	18	14	3
Rajasthan	65	15	17	4
Jharkhand	63	16	10	11
Uttar Pradesh	58	24	8	10
Assam	57	29	7	7
West Bengal	54	23	15	8
Orissa	51	42	4	4
Karnataka	49	26	15	10
Maharashtra & Goa	47	17	15	21

**Annexure 5: Awareness Levels of Different Financial Instruments in Low Income Workers in Different Regions**

In percent

Region	Banks	Post office	Life insurance	Chit funds / NBFCs	Self help groups	MFIs	Money lenders
Northern Hilly States	96.0	91.2	80.4	29.9	0.0	4.9	63.3
North Western States	98.4	98.3	93.3	40.3	0.0	30.2	86.9
North Eastern States	95.9	87.2	97.4	48.0	14.7	74.3	71.4
Central and Northern States	97.2	94.5	80.8	33.7	1.3	24.2	83.7
Eastern States	94.4	92.6	82.6	50.2	7.7	38.2	87.2
Western States	96.5	95.5	93.4	46.4	3.4	38.7	63.7
Southern States	95.4	94.2	95.1	65.7	12.0	52.7	78.8
<b>All India</b>	<b>95.6</b>	<b>93.5</b>	<b>86.3</b>	<b>48.6</b>	<b>6.8</b>	<b>38.7</b>	<b>82.0</b>

## Annexure 6: Risk Perceptions of Low Income Workers

	In percent								
	Banks	Post offices	Life insurance	Chit funds	NBFCs	SHGs	Agricultural land	Gold	Silver
Percieves no risk and has invested	19.4	4.5	12.6	0.8	1.0	4.8	15.3	2.5	3.4
Percieves a risk but has invested	0.8	0.2	0.8	0.4	0.4	0.5	1.3	0.5	1.0
Percieves a risk but not prepared to invest	4.5	3.5	3.0	17.6	13.0	10.4	9.3	29.9	29.3
Percieves no risk and are prepared to invest	19.7	13.7	16.1	1.3	1.8	6.2	13.7	7.0	6.0
Percieves a risk but are prepared to invest	0.4	0.5	1.0	0.4	0.4	0.6	1.0	1.0	0.8