

Financial inclusion: Focus on Middle India

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Those wedged between India's welfare and market-driven economies have little social security even as they work under precarious employment conditions.

Most analyses of the Indian consumer economy tend to focus on the middle-class on the presumption that this consumer segment comprises the biggest chunk of the Indian consumer population. However, nothing could be further from the truth. The “Indian Middle Class and the Rich” comprise just the top 20% of the Indian population. The ICE 360° Survey 2014 has sought to provide a deeper look into the real middle segments of the Indian income pyramid—or the large population group that exists between the top 20% (richest) and bottom 20% (the poorest) consumer segments—in a bid to get a better understanding well-being dynamics.

The middle segment of India comprises nearly 60% of the population, wedged between the welfare-driven economy, on the one hand, and the liberalising market-driven economy on the other. Post-Independence, government policies have been designed to benefit either the rich/middle-class or have addressed the concerns of the poor through various anti-poverty welfare schemes. Middle India in the process has largely been ignored.

The ICE 360° pan-India Household Survey was conducted across 20,195 households (comprising a probability sample) selected from seven economic clusters (4 urban and 3 rural) in 21 major states of India in 2014. There are 270.1 million households in the country of which 163.7 million households belong to Middle India, 43.9 million households belong to Poor India and 62.5 million households belong to Rich India. Out of 270.1 million households, 66% (179.5 million) live in rural areas and 34% (90.6 million) live in urban areas. In about one-fifth of all households, the highest education level is below primary, in 23% households it is primary-/middle-school while in 16% households it is matric/secondary. Beyond this, in one-fifth of the total households, the highest education level is higher secondary while in approximately one-fifth (21%) households, the highest education level is ‘graduation and above’.

At the all-India level, in about one-third of total households the primary occupation is ‘casual wage labour’ while the share of regular salary/wages, self-employment in non-agriculture and self-employment in agriculture hovers around 20% each. Within Middle India and Poor India, households engaged in casual labour as primary occupation form the largest share while in Rich India, salaried households form the bulk.

Survey results indicate that there isn’t much occupational volatility, in terms of frequent job change, among Indians in general and Middle India is no exception to this pattern. The majority of Middle Indians work in precarious employment conditions and few have written job contracts or access to the perks of employment that salaried employees do in terms of paid leave, regular remuneration or adequate coverage under social security provisions. The situation is visibly worse for Middle and Poor India. At the all-India level, around three-fourths of the households whose chief wage earners (CWE) are either regular salaried/wage earners or casual labourers, reported that they do not have any written job contract, only 37% are eligible for paid leave and about one-third get at least a weekly day off, 44% get regular monthly salary. The corresponding figures for Middle India: 81% do not have a written employment contract; only one-third are eligible for paid leave; 27% get at least a weekly day off; and 38% get monthly salary. The figures are even more depressing for Poor India and much better for Rich India.

Middle India is also disadvantaged in terms of coverage of social security provisions. The proportion of CWEs (either regular salaried/wage earners) who are covered under provident fund, pension schemes and gratuity are 53%, 29% and 31%, respectively, at the all-India level.

The average household in India earns an annual income of R197,686, spends R162,585 annually and has a surplus income of R35,101 to save and invest. The average household in Middle India earns R154,129 annually and spends R141,417 leaving a surplus income of R12,711 per annum. The average household in Rich India earns 2.6 times more annually and spends 1.9 times more than Middle India. Poor India, on the other hand, suffers from income vulnerability as annual expenditure of an average household is nearly 15% higher than annual income .

Given the status of Middle India, it is pertinent to ask the question: Is Middle India socially, politically and financially included? In recent times, Union and local governments have pushed for inclusive growth, as the benefits of economic growth has not reached every segment of society equally. Often, exclusion is characterised by poor access to public goods, social and financial services, denial of human and political rights, lack of civic participation, and an overall feeling of discrimination and alienation.

The country still has a long way to go in terms of access to basic amenities or public goods. The goal of universal coverage of basic services like safe drinking water, toilet facilities, kitchen spaces, usage of LPG as cooking fuel is still to be achieved and access is particularly poor for Middle India and Poor India as compared to Rich India. Accessibility of basic amenities is much better in urban areas as compared to rural areas. Consider for example the most fundamental necessity: Water. Nearly 65% households at the all-India level as well as within Middle India expressed their willingness to pay for more water. Among the Poor, 54% households, and among the Rich, 71% households expressed their willingness to pay for more water.

The survey found, at the all-India level, apart from bank account ownership of households (87%), access to services, like mobilisation of formal savings (most preferred form for 45% households as compared to 47% for informal credit), life insurance (30%), formal credit (14%), etc, is still low in India. Middle India's figure is the same as the all-India average on bank account ownership. But for all other financial services, its figures are lower.

In the survey, we tried to assess the financial optimism of Middle India, particularly in the context of their present financial situation, perception of change from the past, their confidence regarding income stability and self-perception about income-class status and their hopes about the future. Households in general and Middle India in particular offered mixed responses to these questions. One may infer that when people were asked general questions of subjective well-being like their satisfaction of present situation or their perception about future, their responses were noticeably optimistic. For instance, nearly 50% households at the all-India level and 46% households in Middle India reported they were satisfied with their current financial situation.

However, when probed about specifics of economic status, responses were far more subdued and the same optimism was not reflected. For instance, only 34% of households at the all-India level reported that they are able to meet basic needs easily with their present income while an overwhelming 64% households claimed they find this difficult. Nearly 45% households are not confident about the stability of their income source. As expected, Middle India and Poor India are far more restrained in their optimism compared to Rich India. It is thus obvious that Middle India deserves much more attention from policy makers than what is being given to them.

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