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**Effect of Financial Inclusion on Household Wealth Portfolios:
A Closer Look from Social Stratification**

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Effect of Financial Inclusion on Household Wealth Portfolios: A Closer Look from Social Stratification

Abstract:

This paper examines how financial inclusion improves wealth allocation among Indian households. Using large-scale, nationally representative survey data on household finance, we first developed a multidimensional index for household financial achievements to examine its role in wealth allocation. Additionally, we investigated the moderation effect of financial achievement scores and caste affiliation on wealth allocation to determine the impact of household financial achievement in solving the inherent disadvantage of backward caste in wealth allocation. We observed several findings from the empirical analysis using the Ordinary Least Square (OLS) and Quantile Regression (QR) models. First, household engagement in formal financial products and services created more financial wealth, housing net wealth, and total net wealth for Indian households. Secondly, the results reveal that financial inclusion is more beneficial for low-wealth households, and the difference in the financial achievements of households is the primary reason for the difference in wealth allocation between rich and poor. Thirdly, our result from instrumental variable regression better explained the positive relationship between household financial inclusion and wealth portfolios after accounting for the confounding effects. Finally, the moderation effect of financial inclusion and caste affiliation on household wealth portfolios does show a significant positive impact on the upper middle quantile of financial wealth. However, we found no significant interaction effect of financial achievement and caste affiliation on housing net wealth and total net wealth. Hence, these findings suggest that promoting more usage of formal financial products or services among low-income groups can improve their financial wealth allocation and overcome the inherent disadvantage. Therefore, providing additional support to disadvantaged communities through financial education and product choices is indispensable in ensuring financial security.



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