

# Index of Household Financial Inclusion (IHFI): an analysis of Kadmat Island of Lakshadweep

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## Abstract

**Background/Objectives:** The purpose of this present study is to introduce the financial inclusion index at the household level and compare the inclusiveness of the Kadmat Island of Lakshadweep.

**Methods/statistical analysis:** Based on the primary data collected from 100 households a separate financial inclusion index was composed in two dimensions and incorporated into a single index using the scoring and weighted average method. This unique index can be used to compare the inclusiveness of the financial sector across the households of any Island economy.

**Findings:** The entire households attained maximum financial inclusions in terms of provision of the financial services while there is greatest variation of demand of it. The extent of the financial inclusion also differed among the various households with regards to socio-economic and cultural factors. The monopolistic financial service provider of the Island limits the quality of services offered to the Island households. The financial inclusion index is relatively higher in the households of government employees when compared with fisherman. But in terms of access to financial services like net banking, share trading, access to unified payment services reveals no variations.

**Applications and improvement:** The methodology adopted in this study can be applied to any measure the financial inclusion across any households of any regions by altering the regional specific independent variables.

**Keywords:** Index of Household Financial Inclusion (IHFI).

## 1. Introduction

Equal access to finance by all sections of the country is considered as the inevitable indicator to measure the inclusive development of the economy. In India, there are growing academic and public policy debate at household, village and other grass roots level are documented on these issues. Financial inclusion index is signal that can be used to measure the household level access at lowest cost. It is widely observed from the literature that there is no any single and uniform financial inclusion index to measure financial exclusion in terms of price and exclusion.

### 1.1. Defining financial inclusion and exclusion

Exclusion is caused by the problems such as access, prices, conditions, marketing and or self-exclusion. As per the definition of the government of India special committee on financial inclusion the term financial inclusion can be conceptualized as the process of ensuring access to financial products and services, credit needed by poor and the weaker sections and low-income groups at the lowest cost. The definitions on of various studies indicate that the financial exclusion is the concept of broader issues of the socio-economic and another form of exclusion of the various sections particularly the poor and the disadvantaged [1]. The researcher has conceptualized the term financial inclusion as a process of easy access to an available source of finance and usage of the formal financial system by every Island households.

### 1.2. Re defining the Index of Household Financial Inclusion (IHFI)

The available literature to measure the status of financial inclusion across various economies reveals about the relationship of a variable like the number of bank accounts, number of bank branches, number of ATMs available, amount of bank credit and amount of bank deposit. In the works of [2], other variables like banking

sector outreach, geographic branch penetration, loan and deposit accounts per capita, loan income and deposit income ratios are also used which are all provide biased information on the inclusion. In this context, an attempt is made in this paper to fill this gap by redefining a household level index of financial inclusion that measures the financial inclusion of the Island households.

### 1.3. Financial inclusion and Island economy of Lakshadweep

The balanced economic system requires a good financial system, particularly in Island environmental setup. Evidence from the various literature suggests that [3] to transform the potentials into production and employment activities and to exit poverty the access to finance is very much required. Most of the research work covers availability and accessibility elements and used aggregate banking data, and show one side details and reject the demand side. This paper is attempted to understand financial inclusion by taking into account of the indicator with both supply and demand for financial services. A separate Financial Inclusion Indices (FIIs) using both the data sets for 2017 are calculated for the entire household. Using the household level data, it also analyzes the role of the informal sector.

## 2. Objectives

1. To find out the financial inclusion conditions at the Island household level study area.
2. To document the details of improvement in financial inclusion of Lakshadweep.

## 3. Methodology

Both primary and secondary data used in this study. March 2017 the survey carried out in the Kadmat Island UT of Lakshadweep and the primary data were collected from various households using the purposive sampling technique for 100 household samples. The selection of the adult and non-adult members are made and data were collected and analyzed by employing simple statistical techniques like percentage, average, ratio and growth rates. The household level index is introduced based on the scoring and weightings method. The details of composing such index are furnished as under.

## 4. Banking outreach based household financial inclusion index

Based on the methodology adopted by Srijit Mishra and Chandan Kumar the financial inclusion index across the households were used in this work. On the other hand in order to find out the banking out reach the following variables were used:

1. Individual deposit accounts
2. Individual credit accounts
3. Individual bank
4. Average saving amount.
5. Individual average credit amount
6. Rate of credit utilized

Based on the above indicators HIFI for banking outreach is introduced as follows.

$$IHFI = (\Sigma I) / 6$$

q q

## 5. Household financial inclusion index

The analysis of supply side indicators reveals about the financial system and its outreach. For conceptualizing the demand for financial services at household level by using information on saving, credit and insurance an index is reintroduced based on the household level data. It is assumed that measures of house hold level inclusion; as a proxy of demand for financial services is also introduced to identify the comparative analysis at the household level:

1. Formal saving
2. Institutional insurances
3. Formal credit facilities of the household
4. Informal saving
5. Informal credit
6. Informal insurance

The computed data simplified into an index using the following formulae.

$$\text{HIFI}^d = (\sum_q X^t) / 3_{qn}$$

## 6. Importance of the study

The available literature reveals the limited knowledge contribution which investigates the household Financial Inclusion Index (FII) in Island level.

## 7. Limitations

1. This work is a micro level study.
2. The limited number of samples and the selection of Particular Island itself reveal limitations.

## 8. Literature survey

Financial inclusion helps to open access to a large market, which creates opportunities for global market players and foreign investment, increasing employment in developing countries. It calls for the in depth analysis of the status of financial inclusion in India and the integration of the financially excluded into the mainstream banking system, thus providing them platform for empowerment out of their state of economic and financial deprivation. Studies like [4] have made a detailed analysis of the development of commercial customers and the commitment can also be interpreted as the stimulator of financial inclusion. The attempt made in [5] analyzed the causes of the poor and exclude people of Bangladesh and introduced a novel solution called micro finance through group lending and collateral system that ensure the repayment of credit. The review of literature [6] European commission manuscript [7]. World Bank and others [8] have examined the methodology of assessing barriers to banking access and bank branches. Some approaches of [9] have identified in their papers that concluded that SHGs is an effective instrument in targeting the rural poor and group lending activities by providing the range of financial services.

Studies conducted by [10] opined that the financial inclusion as a tactic towards inclusive growth in future which is to be supported by diverse supportive measures such as technology, financial education, counseling and the society. They expressed a view that financial inclusion can be considered from different dimensions like widening saving / credit, services / product offered on the supply side, easy accessibility, right kind of products, nearness of bank office and they collectively suggested that government initiatives to support financial inclusion needs to be backed by progressive policy and the financial education and counseling, particularly credit and debt counseling are important for the village, which help in motivated to achieve greater inclusion at 100% financial level. The review of literature such as [11-15] found that financial inclusion has become the exhortation in present day financial circles; there are miles to go before it becomes a authenticity in the urban areas and the range the status of financial sector and to admit within its ambit people with low income and the distance through the formal financial system to make them collaborator of economic growth of the country. They also opined a main issue of financial service is the quality of service supplied by banks which propose to overcome the problem like providing the good customer at affordable cost.

## 9. Banking performances in the study area

Table 1 discovers that expenditure pattern of the respondent. The forms of saving of respondent, highest used to save is bank 100% of people uses bank, then lowest 25% of people of SHGs, and 45% of people are

relative, 50% of people are investment in share, 35% of people are gold and jewels and 0% of people are other mode. Relatives are affordable source of finance next to bank.

*Table 1. Source of saving for the surveyed respondents*

S. No	Forms of saving	No of respondent
1	Bank	80
2	Relatives	8
3	Investment in shares	40
4	Gold and Jewels	7
5	SHGs	45
6	Other	0

*Source: Computed from primary survey*

Table 2 shows that the need of the respondents interviewed. It can be understood from the Table 2 that the money management advises is expressed as the most important serviced needed by the surveyed respondents.

*Table 2. Banking services needed by the respondents*

Sl. No	Type of service	Number of respondents
1	Biometric cards	100
2	Banking to the doorsteps	75
3	Insurance of any kind	100
4	24 hour ATM	100
5	Money Management Advise	25

*Source: Computed from primary data*

Table 3 reveals about banking services available and usage attitude of the respondents. From this table it is observed that about 75 percent of the respondent having the bank account are covered by deposits and insurance access.

*Table 3. Banking services available and usage attitude of the respondents*

S. No	Bank account	No of respondent	
		YES	NO
1	Bank account	100	0
2	Bank insurance	40	60
3	Gold Deposited	28	72
4	D –mat Account	40	60
5	Fixed Deposits	40	60
6	Recurring Deposits	40	60

*Source: Computed from primary survey*

Table 4 reveals that financial services availed from the bank. It shows that about 60% of the respondents are availed loan from the bank and 50% of them have access to m- banking and forty percent with access to insurance while none of them have utilized the IPI facility.

*Table 4. Financial services availed from bank*

S. No	Item	Percentage of respondent
1	Mobil transaction	50
2	Dept received from bank	60
3	Insurance for any kind	40
4	Unified Payment Interface	0

*Source: Computed from primary survey*

Figure 1 shows financial services availed by the respondents. It highlights the status of financial services like debt availed from the bank, mobile transaction and insurance of any kind are at the satisfactory level while the recent development in the baking services like unified payment services are not up to the mark.

Figure 2 shows that access to emergency financial needs and the money management advises are not available to the respondents at the required level. Figures 3 and 4 it can understand about the financial services needed by the respondents and is available in the Island.

Figure 1. Financial services availed

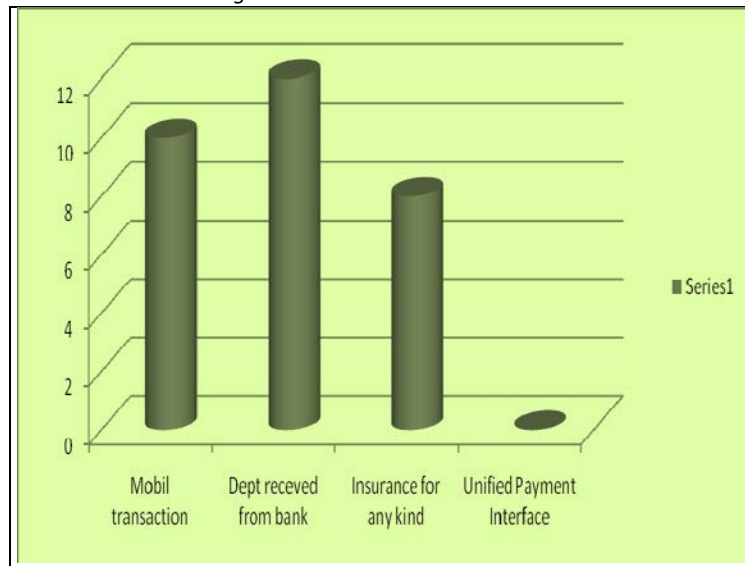


Figure 2. Financial services available to the surveyed respondents

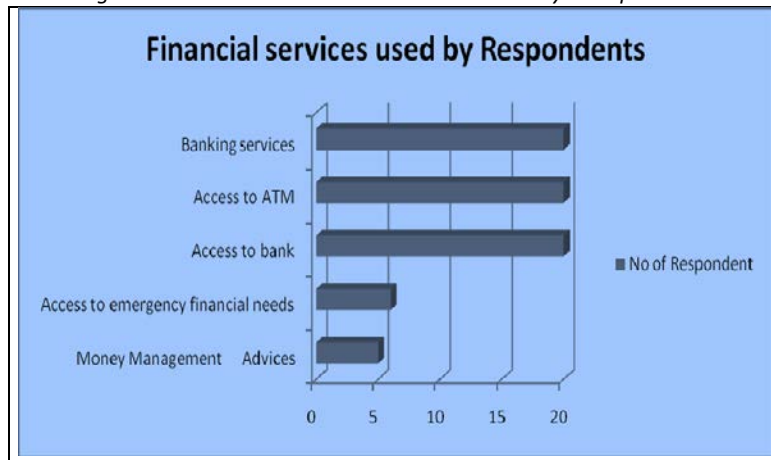


Figure 3. Banking services needed

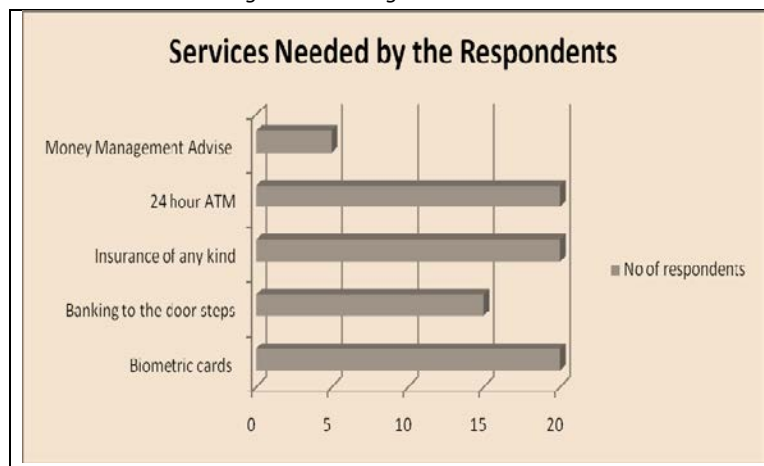


Figure 4. Financial services used by the respondents

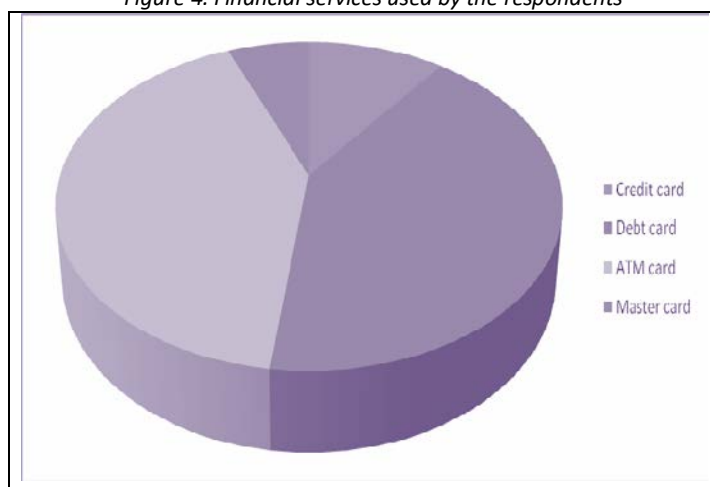


Table 5. Financial services available to the surveyed respondents

S. No	Payments to the bank	Percentage of respondent
1	Money Management Advices	25
2	Access to urgent financial needs	30
3	Access to bank	100
4	Access to ATM	100
5	Banking services	100

Source: Computed from primary survey

Table 5 represents financial services available to the surveyed respondents in the Kadmat Island of Lakshadweep. Access to money management advices and the emergency financial need are the reported as inadequate when we compare with other services such access to bank and ATM etc.

Table 6. Mode of saving of the surveyed respondent

S. No	Banking Relation	Percentage
1	Deposit in bank	100
2	Deposit lease doubt	10
3	Relatives	75
4	All mode	25

Source: Computed from primary survey

Table 6 explores about the mode of saving habit among the surveyed respondents all are using the bank as a mode of saving. But similarly they use their relatives as next mode of saving source. Only about 25% of the respondents are using all the mode of savings.

Table 7. Attitude of the surveyed respondents towards saving

S. No	Saving Attitude	Percentage
1	Compulsory saving	75
2	Not compulsory	10
3	No Need of it	15

Source: Computed from primary survey

Table 7 reveals about attitude of the surveyed respondents towards saving. About seventy five percent of the respondents are having the habit of saving as a compulsory.

## 10. Analysis of demand side index

Table 8 shows about the demand side determinants of financial inclusion. From this table it is found that the financial services such as net banking, credit cards, money transfer and the share trading needs of the respondents are not satisfied yet.

Table 8. Demand side indicators of financial inclusion

S. No	Indicators	No .of respondents reported as inadequate			
		Self employees	Government employees	Fisher mans	Laborers
1	Deposit in bank	-	-	-	2
2	Debt	20	21	20	13
3	Subsidies	25	5	25	23
4	Mobile Banking	-	-	-	-
5	24 hour ATMs	3	7	5	6
6	Net banking	-	-	-	-
7	Credit cards	-	-	-	-
8	Money Transfer	-	-	-	-
9	Share trading AC	-	-	-	-

## 11. Overall status of financial inclusion

Analysis the households are classified into four categories wise laborers, fisher mans, government employees and self-employed. For all the categories the supply side indicator is more or less same due to lack of differences among the respondents in the availability of financial products and services. On the demand side variables it reveals that huge in equalities in access. The financial inclusion index for government employees stands at the highs while that of fisherman and the self employees are at the second. The index is very low about 0.34 out of one for laborers. The indexes high in highly educated household while it is lowest in the illiterate and primary educated. In total, the index of financial inclusion in the study Island is 0.48 which is moderate when compared with households of other Islands like Kavaratti and Minicoy. There is no competitive advantage since Kadmat has only one bank.

## 12. Conclusions

The data on banking penetration, availability, and usage are not available at the individual level because of lack of regular and periodic record of data on different aspects of financial inclusion activities. Similarly, the qualities of financial services on various products are not found in any secondary sources that are needed for further research into the areas of measuring the financial inclusion with a view to studying comprehensive measures and its issues at the Island level further research into these areas is highly recommended.

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*The Publication fee is defrayed by Indian Society for Education and Environment (www.iseeadyar.org)*

**Cite this article as:**

R. Pazhanisamy. Index of Household Financial Inclusion (IHFI): An Analysis of Kadmat Island of Lakshadweep. *Indian Journal of Economics and Development*. Vol 6 (1), January 2018.