



BANKING SYSTEM FOR RURAL SETTING AND FINANCIAL INCLUSION: OUTCOMES FROM A BIRD'S EYE VIEW BASED ON PILOT STUDY AT D.K. DISTRICT

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ABSTRACT

A country that aims at social welfare of its citizens cannot exclude financial inclusion from its mission. Availability of basic banking services accompanied by the support of Information and Communication Technology (ICT) tools in the remote areas of the country can bring about an incredible change in the economy as a whole in the long run. This paper tries to assess the financial literacy of a sample of the sample to be tested for a research proposal. In other words, the paper describes the outcome of a pilot survey conducted in the rural area of Dakshina Kannada District, Karnataka.

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INTRODUCTION

The Indian economy in the last few years has witnessed tremendous variations in its policies owing to new leaders in power, novel goals, noble socio-economic objectives and so on. Demonetisation, Implementation of Goods & Services Tax, Encouragement to Women and Self help associations, Introduction of people-friendly policies and schemes such as Prime Ministers Jan Dhan Yojana, MUDRA etc have been the talk of the town in the recent years. The focus has been on social welfare and social welfare is impossible without financial inclusion. Thus, if a country is economically backward, financial exclusion could be one of the reasons.

Statement of the Problem/Objective of the study

The paper titled "Banking system for Rural Setting and Financial Inclusion: Outcomes from a Bird's eye view based on Pilot study at D.K. District" is the result of the pilot survey conducted by the researchers before going in for the major survey and thus has the following objectives:

1. To study the financial literacy level of the sample of the rural sampling frame to be taken forward in the future major study.
2. To determine how open the rural masses are in accepting information and communication tools for banking services.
3. To check the internal consistency of the variables chosen for study.

METHODOLOGY

The present study is analysed in two stages: One the pilot testing of the Questionnaire drafted; Two: Modification in the contents of the Questionnaire after identifying the relevant issues. This paper only expresses the findings arrived from the pilot testing of the instrument. However, the analysis shown here is mainly related to the objectives of the study. .

Participant (Subject) Characteristics

Basically any resident from a rural area, with or without possessing an account in a bank was eligible to participate in the survey. However, greater care has been taken to cover all respondents belonging to different age, gender, occupation, income level, educational qualification to ensure wide coverage inspite of the small sample. Any opinions, views or issues mentioned by the respondents during the survey has duly been noted which has helped the researchers at the time of modifications.

Sampling Procedures

Convenience sampling method has been used to reach out to the respondents. The study has been conducted in the rural area of Bantwal region, Dakshina Kannada District and the participants belong to varied demographics. Responses from 30 residents of Modankapu and Jakribettu area (in Bantwal taluk) has been tabulated and analysed.

Measures and Covariates

Survey method is the instrument used for collecting primary data while significant literatures have also been reviewed to

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strengthen the variables relevant in the study. The data collected are tabulated using MS Excel, creation of Pivot table/charts, Data analysis toolpak are used here. The data has been tested for validity and reliability using Cronbach Alpha. Percentage analysis has been used to bring out the major observations. Cross tabulations or Bi-variate analysis has not been shown here owing to very small sample size and hence even inferential statistics like Chi-square test has been avoided and the same can be tested during the major study.

REVIEW OF LITERATURES

A brief review of literatures done by the researchers is highlighted in the format below:

Author/s	Title	Journal Details	Outcome of the study	Remarks/Gap identified
J. Mujhesh, Dr. Raman G.P. (2012)	A study on the banking habits of the rural area of India	Ph.D thesis submitted to Shri JJT University, Rajasthan	Study was to find out the awareness level and problems in banking in rural areas	No such studies have been conducted in rural Dakshina Kannada district.
Mandar M. Kulkarni, Dr. Prashanth Warke (2015)	The Framework for Assessment of ICT based Financial Inclusion Management by Nationalised Banks with special reference to Marathwada region	Journal of Commerce & Management Thought, Vol. 6-4, 2015, pp.684-692	This paper assessed the initiatives taken by SBH & BoM towards Financial inclusion using ICT with an aim to identify the key parameters for its management.	60% of Indian population is bankless, more than having brick & mortar banks, ICT enabled banking could emerge as a viable solution.
Ram A. Cnaan, M. S. Moodithaya and Femida Handy	Financial Inclusion: Lessons from Rural South India	Jnl Soc. Pol. (2012), 41, 1, 183-205	This paper focussed on empirically studying whether FI has been successful in rural South India. It was found that social and personal background is the main cause for financial exclusion.	This paper stressed the need to understand achieving FI is not as easy as expected and it has been understood by different people in different ways.
Dr. Rinky Rola, Vinod Varghese	Financial Inclusion - A Reality Check	SUMEDHA Journal of Mgt, Vol.5, No.2, April - June 2016	This study was conducted in Gujarat to understand the current scenario of FI in India.	No such studies have been conducted in rural DK District.

Research Design

Keeping in view the objectives, the research is expected to be conducted in large scale in the Dakshina Kannada district, this paper highlights the findings derived from the minor survey conducted before going in to the main survey. Based on the various literatures reviewed, a lot of factors or dimensions identified have been related to the researchers’ objective of the study. A region is said to be financially literate when they have sufficient financial knowledge, a positive attitude and behavior towards financial goals and motivated and influenced by factors surrounded by them. How appropriate is this term with reference to Dakshina Kannada district? Is one among the research questions. The researchers have also used 5 dimensions of service quality ie. Reliability, empathy, tangibility, assurance and responsiveness to measure and analyse the satisfaction of the rural customers towards banking services. The questions related to measure these dimensions are tested for validity and reliability using Cronbach alpha. And advanced studies shall be conducted based on the inputs in the major survey. The final element in the framework is to know how comfortable are the rural masses towards the usage of ICT (Information & Communication Technology) and are they flexible enough to utilize this ICT in banking is another question of interest for research. The researchers is keen to know whether these 3 research questions can bring about a drastic change in the status of banking service in the district and as a result help in achieving greater financial inclusion.

Results/ Findings of the study

Demographic Variables

The distribution of the respondents based on the demographic variables such as Gender, Age, Occupation, etc is as follows: The table above is a summary of the demographics of the 30 respondents. The sample surveyed were majority female, most falling in the middle aged group. The other independent

variables like occupation, income, education qualification and others were purposefully spread across to receive varied responses so as to cover the inputs from different classes of respondents.

Inference drawn: After the conduct of the minor survey, it was found that two more important demographic variables ie Religion and Category to which the respondent belongs can also be included to enable the researchers to obtain better picture of the sample to be studied. Also it was suggested by an expert during the course of the piloting, the name of the Taluka to be surveyed and specific Area name could be included to make further studies easy and convenient during the main survey.

Sl. No	Demographic variables	Particulars	Nos.	Percent(%)
1.	Gender	Male	13	43.9
		Female	17	56.1
2.	Age Group	<18Yrs	0	0
		19-30 Yrs	6	19.8
		31-45Yrs	13	42.9
		46-60 Yrs	6	19.8
		61& Above	5	16.5
3.	Occupation	Business	5	16.5
		Beedi Rolling	0	0
		Student	3	9.9
		Housewife	8	26.4
		Cultivation	0	0
		Driver/mason/labors	0	0
		Others	14	46.2
4.	Educational Qualification	Hsc and below	0	0
		Ssle	9	29.7
		Diploma/plus two	7	23.1
		Graduate	8	26.4
		Post graduate	5	16.5
5.	Total Annual Income of Household (rs.)	Professional	1	3.3
		Below 1lakh	12	39.6
6.	Nature of Residence	1-3lakh	11	36.3
		3-5lakh	3	9.9
		Above 5laks	1	3.3
		No answer	3	9.9
7.	No. of dependents	Permanent(own)	19	62.7
		Rented	11	36.3
		On lease	0	0
		Others	0	0
		One	6	19.8
8.	Family Type	Two	6	19.8
		Three	8	26.4
		Four	4	13.2
		Above four	1	3.3
		None	5	16.5
		Nuclear	27	89.1
		Joint	3	9.9
9.	Kind of Ration Card	Extended	0	0
		Apl	22	72.6
		Bpl	6	19.8
10	Marital Status	No Answer	2	6.6
		Single	5	16.5
		Married	24	79.2
		Widow/widower	1	3.3
		Divorcee	0	0
Separated	0	0		

OBJ1: Financial Literacy Level

The analyses of few of the questions are presented in a tabulated form shown below:

Variables to Check the Level of Financial Knowledge And Utility: (sample size: 30 expressed in percentage)

knowledge in basic finance and thereby is willing to learn more to enable in making correct financial decisions for them.

Type	Awareness			Usage	
	Fully Aware	Partially Aware	Fully Unaware	Using	Not Using
1. Insurance services	27	70	3	73	27
2. KYC norms	13	23	63	NA	NA
3. Few Banks provide PPF accounts	17	30	53	27	73
4. Pension schemes of Govt.	30	37	33	30	70
5. PMJDY (Jan-dhan)	27	50	23	23	77
6. 'Bank on Wheels' services of some banks in DK	7	30	63	3	97
7. Mutual fund industry	13	33	53	7	93
8. Stock markets	10	33	57	7	93
9. Real Estate	7	37	57	3	97
10. Commodities market	7	23	70	0	100
11. Lease Agreement	7	40	53	NA	NA
12. Purchase & Sale procedure of a property	10	30	60	NA	NA
13. Auction method of banks for property sale	7	33	60	0	100
14. Chit fund activities (Cheeti in kannada)	7	40	53	NA	NA
15. Stree shakti and other SHG working	17	43	40	NA	NA
16. Simple Interest and Compound interest calculations	10	43	47	NA	NA

From the analysis of the table above that seeks information on the level of awareness on the various financial services, terms used etc, it is interesting to find that about 13 out of 16 variables (highlighted in bold) are indicated as completely unknown which shows that there is a high level of ignorance or low awareness towards basic financial knowledge. Consequently, the usage also is at a low level. Financial terms that involve complicated processes such as commodity markets, chit funds, real estate dealings, KYC ie Know Your Customer etc are not so well known amongst the respondents. This indicates poor level of financial knowledge.

Curiosity in Enhancing Financial Knowledge

Particulars	No. of resp.	Percentage
Not at all interested	1	3.33
Somewhat interested	18	60.00
Very interested	4	13.33
Not sure	7	23.33
Total	30	100.00

Services	Awareness				
	UK	SWK	K	FK	VWK
1. Deposits collection	0	0	63	27	10
2. Granting loans	7	0	60	23	10
3. Issuing drafts	17	0	57	20	7
4. Agency functions- Collection/Payments	30	7	50	3	10
5. Funds transfer	20	10	57	7	7
6. Phone Banking services	17	10	63	3	7
7. ECS (electronic clearing system)s Payments	33	3	47	7	10
8. ATM Services	17	3	60	10	10
9. Tax collections	23	7	57	3	10
10. Pension payments	20	7	53	13	7
11. Net Banking services	33	7	43	7	10
12. Safe lockers	27	17	43	3	10
13. Educational loans	23	10	53	7	7
14. Mutual funds	43	7	37	10	3
15. Investment advice	40	13	40	7	0
16. Housing loans	17	3	57	20	3
17. Demat services	43	7	37	10	3
18. Insurance products	17	3	63	7	10
19. Mobile banking services	33	3	50	7	7
20. Credit card services	40	7	43	3	7

When the respondents were asked how interested they are in increasing their financial knowledge, it was found that about 60% of the responses were affirmative. This confirms the previous finding which shows that people have poor

Variables to Check the Level of Awareness on Banking Services and Its Utility: (sample size: 30 expressed in percentage)

(VWK-Very-well known, FK- Fairly Known, K- Known, SWK- Somewhat known, UK- Unknown)

The table above shows whether the respondents are aware of the various banking services offered. It is inferred that the respondents know the majority of the services primarily offered by banks while they are less aware of the secondary or advisory services that banking industry offers to the respondents.

Respondents' Level of Agreement on The Importance of The Banking Services (sample size: 30 expressed in percentage)

(SA=Strongly Agree; A=Agree; NAND= Neither Agree nor Disagree; DA=Disagree; SDA=Strongly Disagree)

Factors	SDA	DA	NAND	A	SA
1. I think banking services can uplift the rural economic empowerment	0	0	0	77	23
2. Banking creates opportunities by giving credit	0	0	7	80	13
3. Banks provide funds to farming sector thereby resulting in economic growth	0	0	7	73	20

The table above is the opinion responses given by the rural respondents. It clearly indicates that the respondents very well agree that banks can bring about improvement in the economy by giving credit and other services.

Respondents' Level of Approval to Suggestions to Improve The Banking Habits (sample size: 30 expressed in percentage)

Suggestions	SDA	DA	NAND	A	SA
1. Popularization of banking products	0	0	0	80	20
2. Creation of awareness	0	0	0	53	47
3. Encouraging 24x7 banking services	0	20	0	50	30
4. Awareness programs and follow-ups	0	0	0	73	27

The table above is the opinion to suggest how banking habits can be improved in the rural area. It clearly indicates that people want banks to communicate its products to the customers, also make them aware of its suitability, etc. Majority of them suggest that banks should create awareness

programs in order to promote banking habits among the rural population.

Respondents' Budgeting Habits

Particulars	No.	Percentage
YES	14	46.67
NO	15	50.00
NO ANSWER	1	3.33
Total	30	100.00

When the respondents were asked if they maintain a household budget, 50% of the responses was a NO. This clearly indicates lack of budgeting habits amongst people.

Respondents' Budgeting Behavior: (sample size: 30 expressed in percentage)

The respondents were to be asked to choose an appropriate option for the following questions with regard to practice of keeping records of income and expenditure.

Statement	Always	Most Often	Sometimes	Rarely	Never
1. I maintain records of incomes earned by my family	17	0	17	13	53
2. I maintain records of day to day expenses incurred by my family	20	7	0	20	53
3. I maintain records for amounts due from and due to others	33	7	3	10	47

The table above shows lack of budgeting habits amongst people. If members of the household whether earners or spenders, do not maintain a budget for incomes and expenses, that shows a clear sign of lack of financial literacy.

OBJ2: Openness TO ICT

The table above indicates the ownership of electronic goods of the respondents. Not so surprising that electronic and durable goods market have penetrated the rural areas quite well. It is evident from the above table where it can be seen that more than 60% of the respondents own mobile phones, television and other electronic items.

Statements	SDA	DA	NAND	A	SA	NA
1. I find it difficult to use mobile phones for banking services	10	33	3	47	7	0
2. Using IT* in banking is more efficient	0	3	13	73	7	3
3. Using IT in banking is more convenient	0	0	20	67	10	3
4. I know less about cellphones than most users	13	40	13	20	10	3
5. I would use ATM* confidently to do banking activities (withdraw , check balances etc)	7	13	3	63	10	3
6. I think using ATM/cellphone/ ICT in banking is risky	10	50	17	23	0	0
7. I am confident of using IT in banking only if I have instructions for reference	3	3	3	87	3	0
8. I would use IT in banking if bank/service providers provide substantial support	0	0	3	77	20	0

*ICT- Information & Communication Technology; IT- Information Technology, ATM- Automated Teller Machine

Respondents' Opinion Towards Usage of Ict In Banking

The respondents were asked to provide their level of agreement for the following statements which expresses their viewpoints in usage of ICT for banking.

The table above clearly indicates that respondents are ready to use the ICT platform for banking if bankers provide enough support by way of awareness, training and continuous show-ups. The ATM seems to be the most loved and popular tool in banking industry which is highly accepted. The table infers that the respondents are open to learning of the various ICT tools in banking.

OBJ3: Validity & Reliability

The Questionnaire was framed keeping in mind the objectives of the study and the researchers has derived 7 important dimensions (mentioned below) to check for internal consistency in the response scales. The research instrument was pilot tested and Cronbach alpha was used to compute the Alpha value for each of the dimensions classified in the questionnaire.

DIMENSIONS	ALPHA VALUE
Awareness	0.6973
Attitude	0.8517
Motivation	0.8382
Budgeting	0.8125
ServQual Dimensions	0.7869
ICT	0.7444
Banking Utility	0.7744
Overall	0.7915

Table No. 6.11 Cronbach Alpha values

To check the reliability, Cronbach Alpha values have been worked out. As all the values of Cronbach Alpha came out to be above 0.6 which confirms the reliability of the data. The content validity has been worked out after due discussions with subject experts and statisticians.

DISCUSSION

The survey has brought about interesting findings from a very small sample of a rural area. The study clearly showed that rural population lack financial knowledge and there is a strong need to enhance their understanding in this area. Merely possessing a bank account doesn't lead to achievement of financial inclusion. The sample respondents are found to be aware of what banks do but are not confident of utilizing it to the core for their financial soundness owing to lack of knowledge. Their poor savings habits are also because of ignorance to financial services otherwise which would have improved the budgeting attitudes and behavior of the people.

The rural India has got greater access and penetration to information and communication technology as it was found that rural respondents do have mobile phones or application

based smart phones, television etc. these media or channel is also a medium for banking awareness or utility of banking services but hardly used for the same. Thus, it can be understood that there is access to information and technology in the rural areas but not specifically or effectively used for banking. This attitude and openness of the respondents can be used as an opportunity by the bankers to reach out to the rural customers. If used, can result in tremendous improvements in the economy.

The Cronbach alpha value confirmed that the scales are internally consistent and can be proceeded with major survey. Even then, a couple of questions have been modified to make

them simpler to understand without affecting the meaning of the statements. The reason being, the respondents are belonging to rural areas and hence use of jargons could confuse the respondents and result in inappropriate replies. In addition, the survey also confirmed that even though the questionnaire is written in English, either the local language ie Tulu or Konkani or the regional language Kannada had to be used in most of the households (except in case of highly educated respondents) to obtain their responses.

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