

**FACTORS INFLUENCING THE RURAL MASS TO HAVE BANK ACCOUNT:  
A STUDY WITH SPECIAL REFERENCE TO KANCHIPURAM DISTRICT**

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**ABSTRACT**

In India, rural people in general and women in particular are largely illiterate, unaware and lack of courage to borrow from formal credit institutions to meet their socio economic needs. In addition to that urban based financial institutions, staff apathy and lack of work experience in the rural sector has restricted the formal flow of credit to the rural poor. Another need of rural people is for consumption credit to meet urgent religious, social, educational and medical needs for which the banks do not normally give loans for such purposes. A World Bank study reveals that 65 percent of credit needs of poor people in India are for consumption needs and such needs are met by informal sources at interest rate ranging from 30 percent to 70 percent per annum. In rural areas the sections largely comprising of marginal farmers, landless labourers, self-employed, urban slum dwellers, migrants, ethnic minorities and socially excluded groups and in order to bring them into financial inclusion, various institutions like commercial banks, regional rural banks and co-operative banks were built at the national, state, District and Village levels to act as a channel for savings and credit for investments. Despite that 60 percent of the rural household does not have deposit accounts, nearly 80 percent of the rural households have no access to credit from a formal source, 70 percent of marginal farmers do not have a bank account, 52 percent of the farmer households are financially excluded from both formal and informal source and overall 73 percent of farmers have no access to formal source of credit. The issue of prevailing financial exclusion has become a matter of concern in recent times to Government, Bankers, Regulators and Researchers. Keeping in view, an attempt has been made to identify the factors influencing the rural mass to have bank account with special reference to Kanchipuram district

**Keywords:** Bank Account, Rural Mass, Financial Inclusion

## **INTRODUCTION**

Inclusive growth has occupied a prominent place in any nation's growth. Inclusiveness – a concept that ensures equity, equality of opportunity and protection in market and employment transition emerges as an essential input of any successful growth of a country. As far as India is concerned, it has been recording a steady growth in the recent years. But prevailing poverty is the major concern. Unanimous view has been emerged that the growth itself does not provide solution to the eradication of poverty. Instead the growth paves the way to marginalize the poor section and increase inequality. Existence of inequality level has become the source for poverty. One important indication of inadequate inclusion in India is that poverty reduction has been muted in the last decade even with rising growth.

Inclusive growth emphasizes the sharing of benefit from the growth. Thus inclusive growth is both an outcome and process. On one hand, it ensures the participation of everyone in the process and in the other hand it makes sure that everyone who participates shares equitable benefit among them out of growth. In fact participation without benefit sharing will make the growth unjust and sharing benefits without participation will make it a welfare outcome. In view of the above statement, inclusive growth can be perceived from long-term view and the focus should be a productive employment rather than income redistribution. If a question is raised, whether the growth advocates pro-poor in terms of benefit sharing, the answer is negative which means the growth is pro-poor oriented if and only if the real income of poor people grow faster than those of the population as a whole i.e. inequality declines. Hence the inclusive growth should act as a “level playing field” for investment and increasing productive employment opportunities.

Indian economy is regarded as agrarian economy despite the improvement in the vast scale has been witnessed in technology science, commerce and industry. Though urbanization spreads across the country, it is hard to note that 72% of population are inhabited in the rural areas and 70% of the population depends on agricultural and allied activities in the rural areas.

Financial intermediation has become an essential tool to achieve the concept of PURA. Financial intermediation refers to the provision of financial services like credit, savings and insurance. The most advantage of Indian economy lies in the deep financial system. Providing rural households access to financial services, particularly credit has been attained with priority in the agenda of state policy in the early days of independence. Many villages and households

struggle to meet out the gap between the receipt and payment due to large seasonal and year to year fluctuations. The only way to bridge the gap is in the form of dissavings or borrowings.

The reforms initiated the banks to operate in the environment of freedom to certain extent. In the regulation regime the critical parameters like branch location, deposit and lending rates and deployment of credit did not have any autonomy to be decided rather the banks were forced to abide by the decision taken by the apex body. But now the total face has changed in such a way that the banks have been provided more freedom to determine their branch location.

### **OBJECTIVES OF THE STUDY**

1. To identify the various factors influencing the respondents to have a bank account

### **SCOPE OF THE STUDY**

Broadly the scope of the exercise extends to the whole field of household finances and institution like banking caters to the needs. The aim of the study is to analyze the financial needs in the area of savings and credit and also assess the access of such services by village households. The study aims to explore the factors influencing the rural households in keeping them away from formal source of credit. To get an in depth feel of ground realities a survey of sample households of two sample villages of Kanchipuram district was made.

### **LIMITATIONS OF THE STUDY**

- As the study is based on the information given by respondents, the accuracy of the results depends on their promptness and ability to recollect.
- The study is restricted to only savings and credit. Other services like insurance have not been covered.

### **METHODOLOGY**

#### **Sources of data**

The study is based on both primary and secondary data. Primary data is collected through questionnaires which were administered to the select households involved in various occupations such as agriculture allied activities, artisans, landless labourers, small business people and others. Questionnaires were prepared by way of consolidating the information of relevance after going through various previous questionnaires and incorporating the ideas of experts in the field.

Secondary data is collected through previous research studies, publication, and articles in the journal, magazines, periodicals and publications of NABARD, RBI, Government of India, Banks, Planning Commissions and other research organizations.

### **Research design**

The methodology of the study is “Descriptive” in nature

### **Sampling Design**

A sample of 200 households was selected by using random sampling method. The sample areas were selected on the basis of population and the mode of banking operations. Since the study is pertained to Kanchipuram, the researcher identified 19 blocks and the blocks were arranged according to the density of population. Out of 19 blocks 2 blocks were selected such as Natthapettai and Thenambakkam having the population of 10,000 and 9000 respectively. As per the analysis of mode of operation with respect to banking system, the researcher found that there is no branch banking rather banking representation (BR) through third party only exists. Hence the researcher convinced in taking the above two blocks as the sample areas to carry out the research study as to what extent the accessibility of bank finance is viable and possible for the individual as well as households of the selected villages.

As far as the sample size is concerned, the researcher followed the percentage method to identify the sample size. In this research study, the approximate percentage of 2% population has been taken as random sample so that from each village 100 samples were drawn (total: 200) to carry out the study for the period of February 2012 to October 2012.

### **REVIEW OF LITERATURE**

The approach to financial inclusion in India encompasses concentrating on vast majority who are excluded (Thorat, 2007, Sharma, 2008, Subbarao, 2009, RBI, 2009). Financial Inclusion can be monitored in two ways, one; exclusion from payments system, i.e. not having access to a bank account. The second type of exclusion is from formal credit markets, requiring the excluded to approach informal and exploitative markets. Through nationalization of banks in 1969, it was envisaged to extend coverage of banks in unbanked areas, thus increasing the scope of covering larger population. Recently the focus has been concentrated on providing affordable basic banking services.

Later on a study was conducted among the fisher folk in Orissa with the objectives of assessing the earning pattern, spending, borrowing and saving pattern (Mammo, 1987). The study also probed into traditional saving methods and purpose of savings in small scale fishing community in the fishing villages of Udayapur and Gopalpur. The author observed two types of credit systems operate in fishing communities: the traditional and the institutional. Traditional sources comprise moneylenders, middlemen, fish traders etc. who charge an interest rate between 40% and 50% per annum. The elasticity of the interest rate is determined by the urgency of the demand for loans, on the one hand, and the number of moneylenders in the community on the other. The traditional lending system, tailored to the community's needs, is still the strongest in fisher folk villages. Of the 80 households surveyed in each village, 47% and 54% have borrowed from banks and cooperatives, paying interest at the rate of 11-13% per annum. 61% to 68% of the households have borrowed for production-related activities. It was found that the money for consumption expenditure is borrowed from moneylenders, relatives and friends. Although the survey indicates that fisher folk do want to save, their savings are mostly for short term needs and on a day-to-day basis. Group savings are more appropriate and helpful for lower income groups. Credit facilities and new income-generating activities boost incomes and motivate higher savings. There are a variety of factors imposing financial exclusion. For example, in remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent. From the demand side, lack of awareness, low incomes/assets, social exclusion, illiteracy act as barriers. From the demand side, there are number of reasons for the rural poor remaining excluded from the formal banking sector, such as:

- (a) high transaction costs at the client level due to expenses such as travel costs, wage losses, incidental expenses,
- (b) documentation,
- (c) lack of awareness,
- (d) lack of social capital,
- (e) non availability of ideal products,
- (f) very small volumes / size of transactions which are not encouraged by formal banking institutions,
- (g) hassles related to documentation and procedures in the formal system,

- (h) easy availability of timely and doorstep services from money lenders/informal sources and
- (i) prior experience of rejection by/indifference of the formal banking system (RBI, 2005).

**DATA ANALYSIS**

**Factor Analysis**

**Analysis of the factors relating to opening the Bank account**

**Table showing the KMO and Bartlett’s test**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.581
Bartlett's Test of Sphericity	Approx. Chi-Square	179.072
	df	21
	Sig.	.000

Source: computed data

**Table showing communalities**

<b>Communalities</b>		
	Initial	Extraction
to receive government payments from NREGP	1.000	.533
for saving money	1.000	.742
depositing and withdrawing money	1.000	.712
for earning interest	1.000	.219
to request loan	1.000	.331
to become eligible for other services	1.000	.693
for making and receiving payments	1.000	.624
Extraction Method: Principal Component Analysis.		

Source: computed data

**Table showing the total variance explained (Eigen values)**

<b>Total Variance Explained</b>									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.101	30.008	30.008	2.101	30.008	30.008	1.933	27.618	27.618
2	1.753	25.050	55.058	1.753	25.050	55.058	1.921	27.440	55.058
3	.974	13.908	68.965						
4	.820	11.720	80.686						
5	.634	9.055	89.741						
6	.393	5.619	95.360						
7	.325	4.640	100.000						
Extraction Method: Principal Component Analysis.									

Source: computed data

**Table showing component matrix**

<b>Component Matrix<sup>a</sup></b>		
	Component	
	1	2
to receive government payments from NREGP	.313	-.659
for saving money	-.828	.238
depositing and withdrawing money	-.717	.444
for earning interest	-.237	.403
to request loan	.420	.393
to become eligible for other services	.555	.621
for making and receiving payments	.512	.602
Extraction Method: Principal Component Analysis.		
a. 2 components extracted.		
<b>Source: computed data</b>		

**Table Showing rotated component matrix**

<b>Rotated Component Matrix<sup>a</sup></b>		
	Component	
	1	2
to receive government payments from NREGP	-.683	-.257
for saving money	.761	-.404
depositing and withdrawing money	.825	-.178
for earning interest	.450	.126
to request loan	-.029	.574
to become eligible for other services	.031	.832
for making and receiving payments	.049	.788
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.		
a. Rotation converged in 3 iterations.		

**Source: computed data**

**Inference:**

Using SPSS, a factor analysis was carried out to identify the factors to motivate the sample households in opening the bank account. To carry out factor analysis, initially KMO and Bartlett's test was conducted to reveal the correlation among the variables. The value of KMO Statistics is greater than 0.5 indicating the factor analysis can be used for the given set of data. Further Bartlett's test of sphericity testing for the significance of the correlation matrix of the variables indicates that the co-efficient matrix is significant as indicated by p value corresponding to the chi-square statistics. In the table the p value is 0.00 which is less than 0.05, the assumed level of significance, indicating the rejection of hypothesis that correlation matrix of the variable is insignificant i.e. there is correlation among the set of variables taken into consideration for factor



analysis. It may be further noted that the sample size is 200 which is more than 5 times the number of variables (7) justifies the use of factor analysis for this problem.

The next step is to extract the factors in order of their importance with factor 1 accounting for the most variance and factor 2 less. Table shows that at the right hand side of the row is the number 3.854 which represents the total explained sum of squares (2.101 + 1.753). The total sum of the square factors represents the total amount of variance extracted by factor solution.

The percentage of trace explained by each of the two factors by 30% and 25% respectively is shown in the table. The percentage of trace is obtained by dividing each factors sum of square by the trace for the set of variables being analyzed. The index for this solution shows that 55% of the total variance is represented by information contained in the factor matrix of two factor solution. Therefore, the index for the solution is more than 50% it is sufficient to say that variables are related to one another.

The next step is to verify communality. Normally communality is denoted by  $h^2$  indicating how much of each variable is accounted for by the underlying factors taken together. It is the measure of the percentage of variables' variation that is explained by the factor. The table shows that the communality for the first variable is 0.53 which means 53.3% of the information content of the first variable, namely 'to receive government payment from NREGP' is explained by the two factors. Similarly, second variable is explained by the two factors to the extent of 74%. The variables like earning interest and request loan are explained by the two factors to the minimum level of 22% and 33% respectively.

The next step is to interpret the factor loading matrix called the component matrix. In order to do so and to be able to interpret the results in a better way a factor rotation is desired. The purpose of rotation is to have the factor loading in such a way that they are either close to zero or to  $-1$  or  $+1$ . This means that the factor loadings are high on some variables and low on some other variables. The table shows the result of varimax rotation. In order to interpret the results a cut-off point is decided. There is no hard and fast rule to decide the cut-off point; generally, it is taken more than 0.5. Now using 0.65 as a cut-off point the three variables corresponding to the factor 1 having a factor loading above 0.65 are (i) receiving payment from NREGP, (ii) Saving money and (iii) depositing and withdrawing money. The variables corresponding to factor 2 for which the

factor loading are greater than 0.65 are (i) becoming eligible for other service and (ii) for making and receiving payments.

The last step is to name the factors. The factor 1 could be named as core benefit factor and factor 2 could be named as additional benefit factors.

## **CONCLUSION**

The study has made an attempt to identify the factors for opening the bank account. The study revealed that the respondents open the account for getting benefits and the benefits are identified as core benefit factor and additional benefit factor.

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