

Banking Habits of Rural Population and Its Impact on Deposit Mobilization

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ABSTRACT

Banking is the kingpin of the chariot of economic progress. It plays a pivotal role in the development of the economy of any nation. Proper banking facilities are necessary for the development of agriculture, industry, trade, commerce, and transport banking institutions mobilize savings and use them for productive purposes. It is the life-blood of economic progress. Mobilizing deposit is a core activity of any bank. By the same resemblance, the major activity is mobilizing deposit. Therefore the bank should give due emphasis to its deposit mobilizing tasks by considering mobilizing deposit is a way to continued existence. It is clearly noted that increased accessibility to banking services has a positive relationship with bank deposits and banking habits. Thus, efforts should be made in channelizing the services to remote villages so as to make them participative in the banking system

1. Introduction

Banking is the kingpin of the chariot of economic progress. It plays a pivotal role in the development of the economy of any nation. Proper banking facilities are necessary for the development of agriculture, industry, trade, commerce, and transport banking institutions mobilize savings and use them for productive purposes. It is the life-blood of economic progress.

The banking system in India consists of two main sectors - the organized sector and the unorganized sector - The organized sector is composed of the Reserve Bank of India and the commercial banks. The commercial banks are of

two types namely, the scheduled banks and non-scheduled banks. Scheduled banks are those banks whose name appears in the second schedule to the Reserve Bank of India Act 1934. Non-scheduled banks are those banks whose name is not included in the second schedule to the RBI Act 1934. The scheduled banks are of two types- Nationalized and Non-Nationalized-It also includes the new generation banks, foreign banks, and the co-operative banks . The unorganized sector comprises of indigenous bankers and the money lenders. Besides these two sectors, there are also some institutions in the Indian banking system such as post office savings bank the Industrial Finance Corporations, State Finance Corporations, etc. The Reserve Bank of India is the leader of the Indian banking system.

Bank deposits have all along been the mainstay of the savings process in the Indian economy. Although banks have played an increasingly important role in stepping up the financial savings rate, physical savings, nevertheless, have tended to grow in tandem with financial savings. A major challenge, thus, is to convert unproductive physical savings into financial savings. This is also necessary for banks as they face several challenges in realizing the full potential of deposit mobilization in a growing economy. Bank deposits have become relatively less attractive to the households in view of the availability of a wide menu of alternative saving instruments offering scope of higher returns to savers. Furthermore, savers have also become more informed

in managing risks of their portfolios through the use of specialized services offered by other financial intermediaries. This behavior is expected to accentuate in future. In view of the shrinking share of the household sector deposits in total deposits, banks need to explore ways of broadening the depositor base as also provide improved services for retaining their clientele. It is, therefore, necessary for banks to seek for new sources of deposits. There is an enormous potential in rural and semi-urban areas and banks need to tap these sources. This, however, would require banks to offer customized products with features suitable to individual risk-return requirements as well as economies on their operational costs through diversification of activities. In this context, the recent policy emphasis on financial inclusion offers greater scope for banks to widen their deposit base. Furthermore, the changing demographics and employment patterns have also thrown opportunities for banks to expand their role by bringing the depositors with younger age profile within their fold. The substitution of funds from banks to non-bank instruments and *vice-versa* has been observed in the recent past and such trends may also occur in the future. This would call for greater care in the assessment and interpretation of monetary aggregates.

2. Review of Literature:

Mahalaxmi Kirshnan in her study quoted that with only 50,000 of the 6,00,000 villages having access to finance there is an imperative need to accelerate branch expansion in rural areas.

Seema Rafique and Satish Manwani have revealed in their research that in the near future, Rural India is going to become the biggest market of the world and it is transforming like anything. Rural development as an emerging trend is about to explore possibilities in rural India.

Subba Rao (1982) conducted a study to find out the influence of different media of advertisement and different forms of personal selling on the deposit mobilization of commercial banks both in urban and rural areas. **Manas Chakrabarti**, says agriculture and rural sectors play an important role in India's overall development strategy in terms of incomes and employment generation and poverty alleviation. Great significance has, therefore, been accorded to developing appropriate institutions and mechanisms for catering to the credit requirement of these sectors, Government of India promoted Regional Rural Banks (RRBs) through the RRBs have a special place in the multi-agency approach adopted to provide agricultural and rural credit in India. **K.K. Tripathy and Sudhir K Jain** said that the key problem of Indian agriculture is finance. Several weaknesses of the rural financial delivery system, have not been corrected even after almost 50 years of bank nationalization of 1969 which focused on enhancing the outreach access to rural credit in India.

3. Research Methodology

Problem Definition

Rural banking in India started since the establishment of the banking sector in India. Rural Banks in those days mainly focused upon the agro sector. Today, commercial banks and Regional Rural Banks in India are penetrating every corner of the country are extending a helping hand in the growth process of the rural sector in the country.

This study is aimed at understanding "***Banking Habits of Rural Population and Its Impact on Deposit Mobilization***". The implied intent of the study is to understand the sources of income and consumption expenditure of rural households in Nagpur district & to identify the level of banking

habits of the rural population. The study also aimed at identifying the role of nationalized banks in banking habits of villagers of Nagpur district.

4. Rationale behind the study

The burden of indebtedness in rural areas of Nagpur district is one of the determinant factors for more or less banking habits among them. Despite major structural changes in banking institutions and forms of rural credit in the post- Independence period, the exploitation of rural masses in the credit market is one of the most pervasive and persistent features of rural life in India. It is observed that liquidity preference among the rural population is high. Rural households need funds for a variety of reasons and for that, they borrow from money lenders. These money lenders exploit the rural household by charging heavy interest and it reveals in impact on banking habits. The rural population saves their money at less amount and it may reflect in poor banking habits. Due to the agricultural and non- agricultural activities in rural areas depending on typically seasonal incomes, and the imbalance incomes and expenditure they may not be able to save the money, thus it was needed to study the banking habits of the rural population and the role of nationalized banks.

5. Objectives of the Research

1. To measure the growth of rural banking system in the rural areas of Nagpur District.
2. To study the problems in deposit mobilization from rural areas of Nagpur District.

6. Hypotheses of the Study

Null Hypothesis

There is insignificant growth in saving and fixed deposits of nationalized banks in rural areas due to deposit mobilization strategies.

Alternate Hypothesis

Rural areas of Nagpur District have shown remarkable growth in saving deposits and fixed deposits in nationalized banks.

7. Data collection

1. **Primary Data:** - This data has been collected through questionnaires, interviews and responsible sources of relevant banks and rural population. The questionnaires have been filled up by the rural respondents and bank officials for collecting facts for the purpose of this study.
2. **Secondary Data:** - This data has been collected from reports of Govt. publications, research journals and books, internet and other authentic sources like publications by Reserve bank of India and publications made by Nationalized Banks. Also, Secondary data collected through RTI.

3. Tools of Analysis

The data is analyzed using SPSS with Statistical tools like Percentage Analysis, Mean, independent sample t-test, one way ANOVA test, paired sample t-test, and other statistical tools at appropriate places.

4. Hypothesis Testing

To study the hypothesis "There is insignificant growth in saving and fixed deposits of nationalized banks in rural areas due to deposit mobilization strategies.

” Paired sample t-test is applied on the Amount of Saving Deposits of 2011 to 2015 where the following pairs were analyzed.

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Amount of Saving Deposits 2011	2199160.0400	25	895757.18041	179151.43608
	Amount of Saving Deposits 2015	3106867.0000	25	1041230.07887	208246.01577
Pair 2	Amount of Saving Deposits 2012	2460528.0400	25	1002217.09736	200443.41947
	Amount of Saving Deposits 2015	3106867.0000	25	1041230.07887	208246.01577
Pair 3	Amount of Saving Deposits 2013	2086609.4800	25	637336.73412	127467.34682
	Amount of Saving Deposits 2015	3106867.0000	25	1041230.07887	208246.01577
Pair 4	Amount of Saving Deposits 2014	2285539.8000	25	693407.96090	138681.59218
	Amount of Saving Deposits 2015	3106867.0000	25	1041230.07887	208246.01577

Paired Samples Correlations

	N	Correlation	Sig.
Pair 1 Amount of Saving Deposits 2011 & Amount of Saving Deposits 2015	25	.958	.000
Pair 2 Amount of Saving Deposits 2012 & Amount of Saving Deposits 2015	25	.958	.000
Pair 3 Amount of Saving Deposits 2013 & Amount of Saving Deposits 2015	25	.947	.000
Pair 4 Amount of Saving Deposits 2014 & Amount of Saving Deposits 2015	25	.924	.000

The above table shows that there is perfect positive correlation between amount of saving deposits of 2011, 2012, 2013 and 2014 with Amount of Saving Deposits of 2015.

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 Amount of Saving Deposits 2011 - Amount of Saving Deposits 2015	-907706.96	316210.67	63242.13	-	-	-	24	.000
		209	442	1038232.3	777181.60	14.35		
Pair 2 Amount of Saving Deposits 2012 - Amount of Saving Deposits 2015	-646338.96	299528.51	59905.70	-	-	-	24	.000
		806	361	769978.25	522699.66	10.78		
Pair 3 Amount of Saving Deposits 2013 - Amount of Saving Deposits 2015			96656.48	-	-	-	24	.000
			044	1219746.6	820768.34	10.55		
Pair 4 Amount of Saving Deposits 2014 - Amount of Saving Deposits 2015			96029.51	-	-	-	24	.000
			767	1019522.3	623132.01	8.553		
				8340	660			

1. The significance (2-tailed) value of pair 1 i.e. amount of saving deposits of 2011 and 2015 is 0.00 which is less than the alpha value of

0.05 hence null hypothesis is **rejected**, thus it is concluded that there is significant growth in saving deposits of nationalized banks in

rural areas due to deposit mobilization strategies from 2011 to 2015.

2. The significance (2-tailed) value of pair 1 i.e. amount of saving deposits of 2012 and 2015 is 0.00 which is less than the alpha value of 0.05 hence null hypothesis is **rejected**, thus it is concluded that there is significant growth in saving deposits of nationalized banks in rural areas due to deposit mobilization strategies from 2012 to 2015.
3. The significance (2-tailed) value of pair 1 i.e. amount of saving deposits of 2013 and 2015 is 0.00 which is also less than the alpha value of 0.05 hence null hypothesis is **rejected**, thus it is concluded that there is significant growth in saving deposits of nationalized banks in rural areas due to deposit mobilization strategies from 2013 to 2015.
4. The significance (2-tailed) value of pair 1 i.e. amount of saving deposits of 2014 and 2015 is 0.00 which is less than the alpha value of 0.05 hence null hypothesis is **rejected**, thus it is concluded that there is significant growth in saving deposits of nationalized banks in rural areas due to deposit mobilization strategies from 2014 to 2015

8. Conclusion

1. The impact of banking habits of villagers is measured by using the growth level of the bank's saving and fixed deposit amount and the number of both types of bank accounts during 2011-2015. The gradual growth in and the number of accounts and amount of saving and fixed deposit is observed.
2. The growth of the banking system in the selected sample area and the sample branches of nationalized banks indicates that the deposits are increasing with pace but the borrowing are done for an only specific purpose i.e. financial aid to farming.
3. The rural branches of nationalized banks confine their activities to a specific area of population that is tehsil where the bank branches are located and nearby villages. These branches cover customers scattered in all villages of its jurisdiction. The distance factor severally hampers the functioning of the branches particularly lending recovery and deposit mobilization
4. Deposit mix of rural branches have less contribution of current accounts, high cost fixed deposits have a large share in deposit mix. It is due to that the farmers do not need current accounts and shops and establishments are located in tehsil place only. The small shops are also located in the villages but during the survey, it was found that they have limited transactions and do not open a current account.