



Developing banking habits through Financial Literacy

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Abstract: A sound banking system with a sound banking habits can accelerate the pace of development of an economy. It is rightly said that banking habits is the key factor that contribute to economic development. Thus it is very important for every country to cultivate the banking habits especially among unbanked. And this can be possible by providing right understanding of economic and financial literacy, apart from providing employment opportunities resulting into rising income and growing urbanization. In this paper the authors identify the reason behind low banking habits among people and suggest certain measure to overcome this problems.

Introduction:

The concept of economic development depends on three principle factors. These are resource availability, mechanism of resource utilization and instituting support of resource utilization. No organization can grow without appropriate support from well economic institution. Banking happens to be principle institution responsible for economic development. It is a pillar and corner stone of the economy. Most of the economic fails for want of a sound banking institution. Similarly, failure of banking often results in failure of economic system. Thus economic development and development of banking goes hand in hand. Therefore, development of a sound banking institution is the key factor responsible for advancement of an economy. Advancement of banking depends on nature and types of banking system, more on regulation of banking and last but not the least, support of people to banking institution. Participation of every individual and institutions in economic activities through banking institution decides how the banking system shall develop. It is essential that more and more people should participate in banking activities and should have a desire banking habits. The types and nature of relationship between banking and its customers is the key factor that decide the success of banking system. Hence, in this present study, efforts are made to understand what kind of banking

habits people have and what the implications of these habits on people.

Statement of the Problem:

The term banking habits is associated with willingness of people to transact with banks and attitude of people towards banking institutions. The frequency, continuity and mode of transacting with banks indicate the nature of banking habits. Escaping approach towards banking, doubt about government policies, religious ideas, misunderstanding of the concept of saving and investment often are the barriers in developing right banking habits. To what extent various constraints associated with banking and the relationship between potential investors and bankers is the subject matter of this paper. In this paper the authors has also analyse the issues related to banking and banking habits in India. The authors have presented some important issues associated with banking system.

Relevance of the study:

The development of financial institution is a real important indicator of overall economy and financial development in an economy. Financial institution is rightly term as 'blood vend' of the economy. Creation, formation, channelization and mobilization often in desire direction is not possible without having formal and well established financial institutions. The quality and foundation of financial institution decides the success of an economic policy.

Banking happens to be one of the important components of financial inclusion. Banks are vital importance. A bank links with common people to the mainstream of financial inclusion, different sector of an economy and even to the government. In true sense banks play the role of catalyst.

The success of an economy can be measure by estimating how people brought under the banking network system. The ratio of people to banks is very healthy indicator of economic and social advancement. From this point of view developing appropriate healthy banking habits is essential.

India being a developing country brought number of people under the network of banking system. However, due to special efforts and large number of nationalised banks, now the number of people having bank accounts is increasing. However, still a sizable portion of the society has not yet brought under the umbrella of banking system. That is why analysis of reasons as to why people are still away from banking system, what are the constraints and what are the measures to overcome these constraints are the subject matter of this study.

Working definition:

- **Banks:** Bank is a financial institutions authorized by government to accepting the deposit from the public and lending the same to the needy person.
- **Banking structure:** It is a constitution of banking system. It shows how banks provide financial services to the individual and institutions.
- **Banking habits:** Banking habits refers to the inclination of the people to keep their excess financial resources in the banks which will ensure its safety and permits its withdrawal whenever necessary.
- **Financial Inclusion:** Financial inclusion is the delivery of financial services to each and every section of the society.

Objectives of the study:

The present paper has the following objectives:

1. To analyze the role of banking institutions in an economy.
2. To examine the kind of banking structure established in India and its impact on development of banking habits.
3. To identify the reasons of low banking habits among people.
4. To study the implications of low baking habits on economy and financial inclusion policy.
5. To suggest measures to enhance banking habits among the unbanked.

Premises:

The present study accepts the following premises:

1. Banking institutions help to link common investors and citizens with mainstream financial institutions and economic system.
2. It is believe that developing banking habits promotes financial inclusion appropriately and helps in establishing economic democracy in a society.
3. The development of an economy depends primarily on the extent to which people are brought under the banking system. In other word - More the banking habits, better will be the status of an economy.

Review of Literature:

In the paper titled "*Strategies for Banking the Unbanked: How Banks are overcoming entrance barriers*" by *Eric Robbins* and *Patrick Contrera* highlight the factors that contribute to Hispanic consumers remaining unbanked and what are the strategies that banks can use to bring these consumers into the financial mainstream.

Mirian Bruhn and *Inessa Love's* paper titled "*The Economic Impact of Banking the Unbanked*" examined the effects of providing financial services to low-income individuals on entrepreneurial activity, employment and income. The analysis exploits cross-time and cross-municipality variation in the opening of Banco Azteca in Mexico to measure these

effects with difference-in-difference strategies. The finding of the paper suggests that Branco Azteca helped informal business owners to keep their informal business running instead of transforming into being wage earners or not employed.

The article *“Millennials’ banking habits suggest deeper branch cuts are coming”* by John Heggstuen analyse the banking habits of millennial, who compose the largest share of both the US and employed population. The paper explored how the millennials use physical nad digital banking channels. The finding shows that majority of them were use digital banking channel.

In the research article *“Perception of customers of the services of the Madurai district central cooperative bank”* by Dr. S. Rajamohan and Dr. A. Krishnan analyse the perceptional customers of the services of

Madurai district central cooperative bank. The auathoirs analyse the data confining to five factors – safety measures by the bank, internal amenities provided by the banks, internal facilities provided by the banks, modern serviic4es of the banks and tangible attributes in the banks.

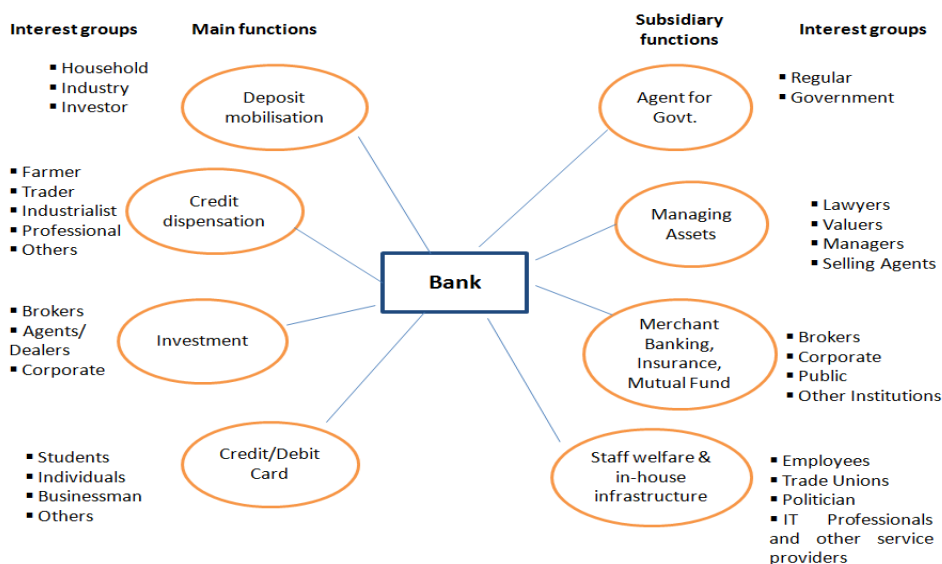
DISCUSSION:

1. Banking structure in India:

Banking is the key to success of the economy. Various activities in the economy are directly or indirectly influence by the banking system. Banks play some role in relation to every stakeholder. A modern bank is not just about accepting and lending, but also plays multiple roles. It is very difficult to imagine the function of economic institution without having a sound banking structure.

The role play by banks can be easily understood through the following diagram:

Figure 1: Bank functions and Interest Groups Relationship



From the above diagram it is clear that various economic sector whether formal or informal are influence by some other banking activities. If banks are strong and have wider coverage then only economy can grow.

2. Role and Importance of Banking Structure:

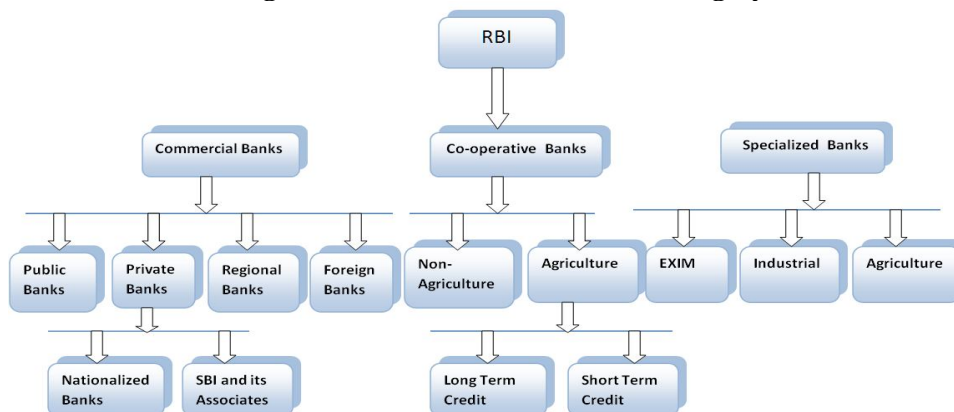
Banks performed multiple function related to economic development. The growth of modern economic is the result of sound banking system. Reserve Bank of India is the regulator of banking activities, which has undertaken a large number of decisions to regulate and monitor banking institutions. At present RBI play the

role of super regulator. All the banks in the country irrespective of nature, types

and functions are regulated by RBI.

The structure of Indian banking system can be rightly shown in the following diagram:

Figure 2: Structure of Indian Banking System



Banking institution do not provides services only to one particular section of the society. The services of banks are requiring by poorest of the poor and the most economic institutions. The modern approach of banking focuses on societal role of banking. A bank is not an institution that works only to protect the stakeholder, but it should come forwards to help the needy people. The real success of banks can come only when the catchment of banking activities is enlarged. If banks have more customers, then only they can expand their overall scope of activities, mobilised the funds and brings in a desire socio-economic change.

In the developing country like India, the role of banks is not consider as mere financial institution, but is taken as institution for social economic change. Improving quality of life, enhancing income level, providing employment opportunities, organizing scatter small discrete resources for meaningful deployment and providing means of independent is the real function of banks. Therefore, the real function of the bank is to develop banking habits among unbanked.

If one goes through the development of commercial banks and their contributions to social change, then it is easily understood that most of the banks are yet to performed social chain agent.

The detail regarding commercial bank is presented here:

Table 1: Statistics Relating to Scheduled Commercial Banks at a Glance

Indicators	March 2006	March 2007	March 2008	March 2009	March 2010	March 2011	March 2012
Numbers of Commercial banks	222	182	173	170	167	167	173
Number of bank offices in India	72072	74653	78787	82897	88203	94019	101261
a. Rural	30251	30409	30927	31598	32529	33868	36130
b. Semi-urban	15991	16770	18027	19337	21022	23299	25931
c. Urban	13232	14202	15566	16726	18288	19046	20321
d. Metropolitan	12598	13272	14267	15236	16364	17806	18879
Per capita deposit of Schedule Commercial Banks (Rs.)	19130	23382	28610	33919	39107	45505	51106

Per capita credit of Scheduled Commercial Banks (Rs)	13869	17541	21218	24617	28431	34187	39909
Deposits of Schedule Commercial Banks as % to Gross National Product at factor cost (at current price)	62.7	66.6	70.1	72.7	74.2	73.6	72.5
Share of Priority Sector Advances in Total Advances of Scheduled Commercial	33.8	33.1	31.6	30.3	31.2	30.6	29

Source: <https://rbi.org.in/Scripts/AnnualPublications.aspx?head>

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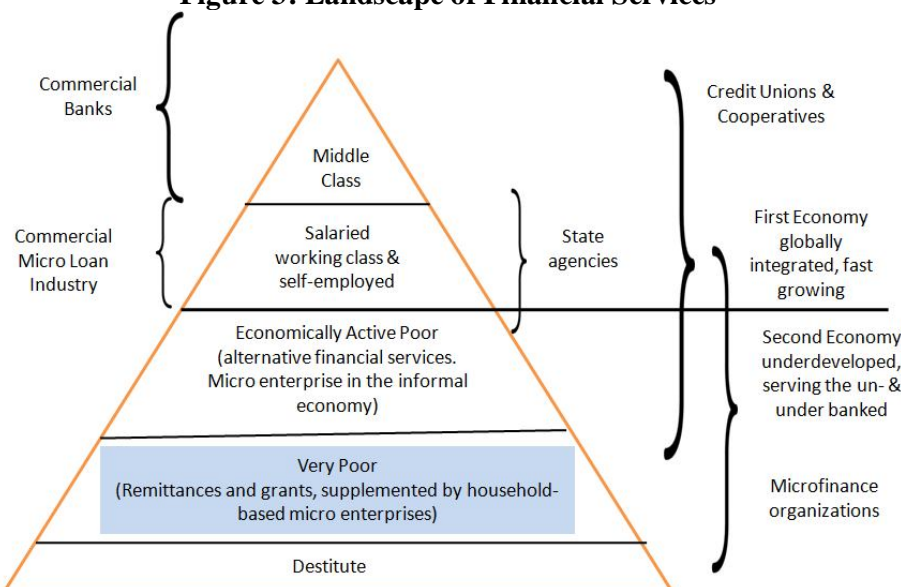
Though there is an increase in number of banks, the number of banks in rural area is yet to improved. The per capita deposit and credit of these have also improved, but when it comes to the share of priority sector advances in total advances of Scheduled Commercial surprisingly there is a negative trend. Therefore, it can be very well said that at present Scheduled

Commercial Bank are yet to contribute to development regarding banking habits among unbanked.

If one goes through the manner in which credit facility provided than a matrix can be formed which clearly indicated that the unbanked are still far behind banking and financial services facilities.

The present structure of banking institution is provided by the diagram which is shown below:

Figure 3: Landscape of Financial Services



Source: *Financial Inclusion-Concepts and Strategies*,(2007) by B Sujatha, Icfai.

This diagram clearly indicates that very poor and weaker sections of the society are not covered by banking system.

3. Reasons for low banking habits:

Why the banking services is not available to larger section of the society

and why the poor destitute classes of the society remained beyond the formal banking services – is very important issues which should be properly understood. The main reason for high level of financial inclusion should be understood for these purposes:

- i. The rural population is continuously on rise. However, the means of income generation in rural are not enhancing in same proportion.
- ii. The rate of growth of banking system in India is just equal or sometimes below the overall population in rural India.
- iii. The network of banking institutions is still shaky, weak, uneven and not having sound foundation.
- iv. There is a great dominant of private lender who prohibits people from participation in mainstream banking activities.

The state where literacy rate is high there is an increase in economic literacy and financial literacy. Whereas the state having low literacy rate, there is a high amount of rural indebtedness and non-formal bankers and money lenders resulting in low financial inclusion.

4. Implication of low Banking Habits:

There is a no denial that there has to have a proper system and mechanism to improve the network of formal banking services. But the present scenario clearly indicates that the extent of financial literacy is low in most of the rural and tribal areas. The initiatives of the states are differ from state to state and region to region. Some state has taken a great forward whereas some still remained far behind, which results in financial inclusion of large section of the society.

The implication of lack of financial inclusion and are visible in term of growing vicious cycle of poverty, loss of employment opportunities and waste of productive resources. Following are the reasons as to why banks are not strong and banking habits are low are as follows:

- i. The saving though in small quantum remained unutilized or idle for want of appropriate means to channelize the funds.
- ii. Many meaningful economic activities that help generation of employment opportunities cannot be initiated.
- iii. People with skills and competence cannot use their caliber by developing self employing opportunities.
- iv. The dominant private money lender is the hindrance of socio-economic development.
- v. Various initiatives and programmes helping rural development can be implemented.

To overcome these barriers following measures are suggested for enhancing banking habits:

- i. Enhancing the unbanked to open free accounts.
- ii. Enhancing the catchment areas of Jan Dhan Yojana.
- iii. Developing an integrated network of all banking institutions to attract the unbanked.
- iv. Encouraging use of banking services for even a small quantum of financial transactions.
- v. Banks should play the role of medium for encouraging this small size transaction.
- vi. Helping the unbanked through SHGs, micro finances, etc. to open account in banks.
- vii. Intensive use of technology for promotion of banking habits.

Implication of the study:

The present paper focuses on various issues related with cultivating banking habits among different section of the society that are not rightly included in the mainstream economic activities. Financial inclusion should be

considered as socio-economic development factor and develop balance economic development of the country. If the country intense to have well defined and directed sustainable development then each and every section of the society have to participate in the mainstream of economic activities. Participation of weaker section of the society cannot be ensured without having development of an economic inclusion. People have to encourage having an appropriate connectivity. From this point of view banking habits becomes a prerequisite for success of an economy.

Conclusion:

In this paper the authors have identified some important issues related with development of banking habits. The authors have drawn certain important conclusions based on the discussions done above:

- i. Developing a sound banking structure is essential for balance economic development.
- ii. Banking institutions should adopt a fair and inclusive policy for encouraging the weaker and neglected section of the society to participate in the mainstream of banking activities.
- iii. Without enlarging the network of banking activities and developing an umbrella of banking services to include even the poorest of poor, banking institutions cannot brings in the desire socio-economic change.
- iv. Developing a banking habits among unbanked can be done by developing a right understanding of economic activities.
- v. Furthermore, developing financial literacy especially among women and other weaker section of the society is a prerequisite for development of rational banking habits among the unbanked.

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