

Financial Inclusion and Performance of Rural Co-operative

Banks in Gujarat

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Abstract

In an Index of Financial Inclusion, India has been ranked 50 out of 100 countries. Only 34% of the India's population has access to basic banking services. The objective of the paper is to study financial inclusion in rural areas, reasons for low inclusion, satisfaction level of the rural people toward banking services and to assess the performance of the banks which are working in the rural areas which mainly include the co operative banks and regional rural banks. Structured questionnaire designed on the basis of literature review was used to collect data from 200 people residing in Ambasan, Jotana and Khadalpur villages of Gujarat. The paper first describes in detail the financial inclusion status in India and Gujarat followed with a review of scenario at the global level. The third section analyses the data with the help of Chi-square test and Tabulation followed with the discussion of analysis, recommendations and conclusion indicating that there is lot of opportunity for the commercial banks to explore the rural unbanked areas. Though Regional Rural Banks (RRBs) and Primary Agriculture Credit Societies (PACS) have good coverage but most of them are running into losses. Commercial banks should seize this opportunity rather than looking at it as a social obligation.

Keywords: Financial inclusion, rural banking, Gujarat, rural cooperative banks

1. Introduction

The Committee on Financial Inclusion was constituted by the Government of India (Chairman Dr. C. Rangarajan) on June 26, 2006 to prepare a strategy of financial inclusion. The Committee submitted its final Report on January 4, 2008. The Report viewed financial inclusion as a comprehensive and holistic process of ensuring access to financial services and timely and adequate credit, particularly by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial inclusion, therefore, according to the Committee, should include access to mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services and insurance facilities. Several steps have been taken by the various banks, NGOs and government to bring the financially excluded people to the fold of the formal banking services. The 100 per cent financial inclusion drive is progressing all over the country. The financial inclusion in rural areas is necessary and profitable for banking sectors so the researcher has studied the financial inclusion among the rural people with the help of sample survey and for that have taken three villages of Gujarat for research purpose. Mainly the focus is on the financial inclusion in rural areas and what are the problems faced by banks and reasons of financial exclusion of rural people.

2. Financial Inclusion in India

In India, the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account / savings account on its own, is not regarded as an accurate indicator of financial inclusion. 'Financial Inclusion' efforts should offer at a minimum, access to a range of financial services including savings, long and short term credit, insurance, pensions, mortgages,

money transfers, etc. and all this at a reasonable cost. Out of 19.9 crore households in India, only 6.82 crore households have access to banking services. As far as rural areas are concerned, out of 13.83 crore rural households in India, only 4.16 crore rural households have access to basic banking services. In respect of urban areas, only 49.52% of urban households have access to banking services. Over 41% of adult population in India does not have bank account.

The RBI recently came up with a State-wise Index of Financial Inclusion. RBI considered three basic dimensions of an inclusive financial system -- banking penetration, availability of the banking services and usage of the banking system. In the group of 23 states for which a 3-dimensional IFI (Index of Financial Inclusion) has been estimated by using data on three dimensions of financial inclusion, Kerala leads with the highest value of IFI followed by Maharashtra and Karnataka. Gujarat lagged behind at 11th place.

In an Index of Financial Inclusion, India has been ranked 50 out of 100 countries. At present, only 34% of the India's population has access to basic banking services. The latest National Sample Survey Organisation survey reports that there are over 80 million poor people living in the cities and towns of India and they lack access to the most basic banking services. The Report Committee on Financial Inclusion headed by Dr.C.Rangarajan (2008) has observed that financial inclusion must be taken up in a mission mode and suggested a National Mission on Financial Inclusion (NMFI) comprising representation of all stakeholders for suggesting the overall policy changes required, and supporting stakeholders in the domain of public, private and NGO sectors in undertaking promotional initiatives.

A sample study carried out by the Banking Codes and Standards Board of India in Mumbai revealed the poor awareness about 'no-frills' accounts and relaxed KYC norms amongst the bank staff itself, a general unwillingness by the bank staff to open 'no-frills' accounts for persons of small means, the account opening forms were not simplified and did not contain any information about the required documents under simplified KYC norms and none of the branches the staff were in a position to offer any guidance in case the prospective customer was not in a position to produce required documents in proof of identity and address. As a result, the weaker sections of India hesitate to take part in financial inclusion and help to increase economic growth of the country.

3. Literature Review of Financial Inclusion

Cole et al. (2009) concluded that financial literacy program has no effect on the likelihood of opening a bank savings account, but do find modest effects for uneducated and financially illiterate households. In contrast, small subsidy payments have a large effect on the likelihood of opening a savings account. These payments are more than two times more cost-effective than the financial literacy training.

Increasing proliferation of mobile services and ATMs in rural areas of India has created a new opportunity to attain financial inclusion and thus an effective tool to provide financial services to the un-banked areas with reduced overheads with providing access to banking services in remote rural destinations of India (Gupta and Gupta, 2008).

Pal and Sura (2006) concluded that the overall position of RRBs in India is not quite encouraging. The poor credit-deposit ratio is still making dent on the desired functioning of RRBs. Since the RRB is supposed to be a bank for poor people, government should spread the branches of RRBs at grass root level to provide such banking service to the really needy rural people and to take corrective measures to raise the credit-deposit ratio of the bank that would make RRBs relevant in the rural India.

According to Ravichandran and Alkathlan (2009), very few people have access to banking services. There are number of factors affecting access to financial services by weaker section of society in India. The lack of awareness, low incomes and assets, social exclusion, illiteracy are the barriers from demand side. The distance from bank branch, branch timings, cumbersome banking procedure, over requirement of documents for opening bank accounts, unsuitable banking products/schemes, language, high transaction costs and attitudes of bank officials are the barriers from supply side. Bank-SHG, bank-MFI, MFI-NBFC and bank- post office linkage models were discussed and new models like rural students banking model, RBI-Education institute linkage models were proposed.

Reddy (2010) suggested a new approach to banks to reach wider population in rural areas by establishing mobile-banks/representatives/agents who operate on commercial basis rather than just by self-help groups. These agents/representatives work on commission basis and hence self-motivated and cost effective in assisting banks in service provision/deposit mobilization.

Ghosh (2007) suggests that the Post Office Saving Bank (POSB) can be used to cater the financial need of rural India where Microfinance Institutions (MFIs) have very little presence in total demand of finance.

To boost micro financing initiatives and financial inclusion program banks are deploying Biometric ATM solutions to its rural customers helping illiterate or barely literate folks to become part of the banking user community (Biswas, 2010).

4. Methodology and Findings

The objectives of the study are as follows:

- 1) To study financial inclusion in rural areas.
- 2) To find out the reasons for the low inclusion in rural areas.
- 3) To find out the satisfaction level of the rural people toward banking services.
- 4) To assess the performance of the banks which are working in the rural areas which mainly include the co operative banks and regional rural banks.

Sample size is 200 people residing in Ambasan, Jotana and Khadalpur villages of Gujarat. Primary data was collected through structured questionnaire survey of villagers. Secondary data was collected from internet, magazine, articles of RBI, Bank circulars.

Chi-square test, ANOVA and Tabulation are used to analyze the data and hypothesis testing.

4.1 Findings from the primary survey

- From the sample 83% have bank accounts and 17 % don't have account.
- There is no significance impact of the rural public's gender on their having the bank account.
- There is significance impact of occupation on having the bank account. It was observed that that farmers, those who are doing job and those who have own business they have bank account but those who are land labors and are doing lower level jobs do not have accounts.
- There is significance impact of the rural public's education on the having the bank account. All respondents with HSC and graduation degree had a bank account.
- There is significance impact of annual income of rural public on their having a bank account.
- From the sample 73% people have saving accounts and 5.5% have current account 21 % have fixed deposits. Thus rural people use more services of the saving account and fixed deposits but they don't prefer current account for their occupations.

- Initial deposit is the first step to attract the rural customers, so bank has to offer the bank account as per their needs and situations. From 83% having a bank account only 22.3% have a no frills account whereas the rest opened it with an initial deposit ranging from 50 to 500 and more.
- Farmers take loans from co operative societies or co operative's bank from the village. All the farmers have taken the loan from the banks as per their land and get the benefits of the government schemes. And people who are engaged in labour work rarely get loan because they have less income to repay loan so bank does not trust them, but they get the benefit of government scheme like poverty alleviation.
- There is significant impact of occupation of rural public on the amount of loan availed from the bank. The business men need the loan of higher amounts and the farmer need for the purpose of farming so the amount is comparatively low than businessmen.
- There is significance impact of annual income of rural people on the loan amount.
- 62% of the respondents visit the bank branch just once in a month and only 2.4% visit it more than 5 times.
- People who have accounts mainly use the services of depositing money, withdrawing money and entry in passbook. Number of people visiting bank for depositing cheque, obtaining loans and repayments is quiet less.
- Out of the respondents who have taken a loan, 25% have availed it from money lenders.
- People avoid taking loan from banks because of lengthy legal procedure and insistence of collateral. The language is not a problem because nowadays the banks provide information in vernacular language also.
- The main reason for not opening an account initially is requirement of documents for opening account, the rural people do not have the any document proof and bank has to open the account on the basis of gram panchayat details. Banking procedure, illiteracy and language problem, knowledge of banking services, low income and assets, are other reasons.
- Rural people having bank accounts are aware about the bank services like cheque book, loans and interest rate, overdraft, credit card/ kisan CC, ATM cards but they don't have that much potential to use the services.
- No one is strongly satisfied with the services provided by the bank, product satisfaction and NGO's and government's efforts for financial inclusion.

4.2 Structure of Rural Cooperative Banks

(i) Short Term Structure of Rural cooperative banks

- State Coop Banks (StCB)
- District Central Coop Banks (DCCB)
- Primary Agri Coop Societies (PACS)

(ii) Long Term Structure of Rural cooperative banks

- State Coop Agriculture and Rural Development Banks (SCARDB)
- Primary Coop Agriculture and Rural Development Bank (PCARDB)

4.3 Findings from Financial Analysis of Rural Cooperative Banks

[Insert Table - 1 here]

- Short term co operative banks prefer to utilize their deposits in investment rather than sanctioning loans and advances because of the risk of NPA.
- The coverage of Primary Agricultural Cooperative Societies (PACS) in western region is 100% means in western region each PACS cover 1 village. So in western region the financial inclusion is higher than other regions.
- Among the all long and short term co operative banks the number of PACS is high in loss making. The NPA to loan outstanding ratio is also highest in PACS. So their sustainability is doubtful.

- While the asset quality of StCBs and DCCBs improved at end-March 2009 over the previous year that of PACS deteriorated during the same period.
- Deposit mobilisation picked up during the year leading to an increase in District Central Co-operative Banks (DCCBs) total liabilities. However, as in the case of SCBs, the increased deposit mobilisation was reflected in increased investments rather than an increase in loans and advances.
- While the SCARDBs reported overall net profits as at end-March 2009, PCARDBs reported lower overall net losses at end-March 2009 as compared with the previous year. It is interesting to note that PCARDBs reported overall operating profits at end-March 2009, however, due to the provisioning requirement, they reported overall net losses.
- SCARDBs(State Co-operative Agriculture and Rural Development Bank) Loans and advances declined while investments witnessed a growth as at March 2009 over the previous year. This may be due to the increased risk averseness of these banks caused by the general economic meltdown.
- PCARDBs depend heavily on borrowings for their resources as deposit mobilisation by these banks are quite low. Deposits constituted only a small percentage of total liabilities of PCARDBs, while borrowings constituted a major chunk of the total liabilities at end-March 2009.
- Deposits of long-term cooperative credit institutions such as SCARDBs and PCARDBs were very low as compared with their borrowings. This indicates that long-term cooperative credit institutions need to improve their deposit mobilisation efforts.

5. Recommendations

- The Indian households can be broadly divided in to two main groups, rural and urban. To have effective financial inclusion, the banks have to always keep in mind these target-groups and bring them to banking fold in such a way that it is a win- win situation for both. Commercial banks can step in to augment financial inclusion in two ways: (i) Providing banking and other related services and (ii) Providing non-banking services and support. To ensure banking services are attractive to those with low incomes, banking products must have features that meet the needs of this group of consumers.
- The commercial bank has the opportunities in rural banking sector because the coverage of commercial bank in rural areas is lower and the PACS coverage is all over but mostly they are running with loss. The main reasons for untapped market of commercial banks are Information Asymmetry, Low Ticket Size, High cost to serve, Higher risk of credit, High Non-performing Loans (NPL)

To cover the untapped market of rural areas create different channels by

- Modifying existing channels by sharing branch infrastructure, ATMs and phone banking.
- Introduce New Channels: Business correspondents (NGOs, MFIs, Societies, post offices).
- Determine the Combination of Channels like
 - Branches and Satellite Branches— In addition to providing regular banking operations, providing backend support to manage and audit the operations of business correspondents.
 - A low-cost, custom-made ATM— managed by a business correspondent to bring down the operating cost.
 - E-kiosk—managed by a business correspondent with internet banking, ATM and POS terminal in relatively large rural areas.
 - A business correspondent—Using manual ledgers or POS/Palmtop to act as deposit collector and remitting agent in smaller rural areas.
- Bank should try to increase the frequency of visit to the branches so that the customers know the different services offered by the banks and can take advantage of the same.
- Banks will have to take steps to reduce the legal procedure and insistence of collateral while lending to increase the number of customers.
- To improve rural inclusion through different bankable services like low cost loans to BPL peoples, to provide micro insurance with the bank account which increase the willingness of using bank services.

As at March 2009, PACS covered around six lakhs villages with a total membership of around 13.2 million. This wide penetration of PACS across villages as well as across small depositors/borrowers would act like a catalyst while pursuing the objective of 100 per cent financial inclusion. It is necessary to revive them to take advantage of their geographical spread.

6. Conclusion

There is lot of opportunity for the commercial banks to explore the rural unbanked areas. Though RRBs and PACS have good coverage but most of them are running into losses. Again, the number of kisan credit cards issued and the amount of credit granted under it is also showing a declining trend. Commercial banks should seize this opportunity rather than looking at it as a social obligation.

Going with Mahajan and Laskar (2010), let us enable every Indian to conduct a financial transaction, a deposit or a withdrawal, a payment or a receipt, of up to Rs 1000, in a secure and convenient way, by going less than 1000 metres away from home or work place, at an all-in cost, including authentication, transaction authorisation, cash-in/cash-out and non-repudiation (using printed paper receipts), for less than 1000 paise, or Rs 10. At a transaction size of Rs 1000, this would be one percent. Let us all in the financial sector take a pledge to usher Universal Financial Inclusion for all Indians by 2020.

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Table 1. Performance of Rural Cooperative Banks as at March 2009 (Rs. In crore)

Rural Cooperative Banks						
Item	Short-Term			Long-Term		Total
	StCBs	DCCBs	PACS	SCARDBs	PCARDBs	
1	2	3	4	5	6	7
A. No. of Cooperative Banks	31	370	95,633	20	697	96,751
B. Balance Sheet Indicators						
i) Owned Funds (Capital + Reserves)	11,726	29,792	11,806	4,003	5,007	62,334
ii) Deposits	68,659	1,27,623	26,245	711	400	2,23,638
iii) Borrowings	20,874	27,664	48,938	15,849	12,365	1,25,690
iv) Loans and Advances Issued*	93,883	90,105	58,787	2,585	1,195	2,46,555
v) Loans and Advances Outstanding	48,079	99,429	64,044	16,421	11,268	2,39,241
vi) Investments	45,230	64,709	-	2,941	1,122	1,14,002
vii) Total Liabilities/Assets	1,06,321	1,95,684	94,585+	25,386	24,846	4,46,822
C. Financial Performance						
i) Institutions in Profit						
a) No.	26	320	37,291	11	303	37,951
b) Amount of Profit	385	1,603	843	398	177	3,406
ii) Institutions in Loss						
a) No.	5	50	45,869	8	309	46,241
b) Amount of Loss	-71	-287	-1,915	-349	-375	-2,997

	iii) Overall Profit (+)/Loss (-)	314	1,316	-1,072	49	-198	408
	iv) Accumulated Loss	459	5,213	-	1,108	3,678	10,458
D.	Non-performing Assets						
	i) Amount	5,764	17,929	37,937++	4,938	4,393	70,961
	ii) As Percentage of Loans Outstanding	12.0	18.0	59.2	30.1	39.0	29.7
	iii) Recovery of Loans to Demand (Per cent)	92	72	-	49	39	-

*: April – March, ‘-’ :Not available, +: Working Capital, ++: Total Overdues

Note: 1) Data are provisional

2) Data for StCBs in Bihar, West Bengal and Tripura are repeated for the year 2008-09.

3) Data for DCCBs in Bihar, Jharkhand, West Bengal and Kerela are repeated for the year 2008-09.

4) During 2008-09, 12,473 PACS were in no-profit no-loss position.

5) Data for SCARDBs in Maharashtra are repeated for 2008-09 from the year 2007-08.

6) SCARDB in Manipur is defunct.

Source: NABARD and NAFSCOB.

Source: Available at: <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/RTP081110FL.pdf>

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StCBs: State Cooperative Banks, DCCBs: District Central Cooperative Banks, PACS: Primary Agricultural Credit Societies, SCARDBs: State Cooperative Agriculture and Rural Development Banks, PCARDBs: Primary Cooperative Agriculture and Rural Development Banks.

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Questionnaire

Name:	
Gender:	Male/Female
Occupation:	Farmer / Job / Own Business / Land Labor / Others
Education:	Below SSC / SSC / HSC / Graduate
Annual Income:	Less than Rs. 25000 / Rs. 25000 to Rs. 50000 / greater than Rs. 50000

1. Is there any bank in your village? Yes/No

2. Which type of bank is there in the village?

- Public Sector Bank Co-operative Bank Private Sector Bank

3. Do you have any account in the bank? Yes/No

4. Which type of Bank Account do you have?

- Current Account Saving Account Fixed Deposit Account

5. Type of the bank in which you have an account? _____

6. You opened your account with how much initial deposit?

- No frill /Less than Rs. 50/ 50-100/100-500/>500

7. What documents you have been asked for opening an account?

- a. Electoral card b. Ration card c. Any Others (Specify) _____

8. What are your approximate monthly savings, which you are depositing in your bank?

- Less than 500 500-1000 1000-5000 Above 5000

9. Whether your bank branch provides you instructions regarding loan schemes and other details in vernacular language (Gujarati)? (Yes/No)

10. Also whether other instructions in pass books, bank forms and other receipts too have been provided in vernacular language (Gujarati)? (Yes/No)

11. Why you initially did not possess a bank account?

Reason	Disagree	Indifferent	Agree
Lack of financial knowledge			
Low incomes and assets			
Illiteracy/language			
Branch timings			
Banking procedure are cumbersome			
Documents required for opening			
Unsuitable banking products/schemes			
Transaction costs			
Attitude of bank officials			

12. Are you aware and have you availed any of these services?

Services	Aware	Availed

Depositing/Withdrawing cash		
Passbook		
Cheque Book		
Loans		
Overdraft		
General credit card/ Kisan CC		
ATM Card		

13. How many times do you visit the bank branch in a month to obtain the above facilities?

Once / Twice/ Four-Five / More than 5 times

14. For what reasons do you visit the bank?

Deposit money / withdrawing money / entry in pass book / depositing cheque / obtaining loans / repayment /others (specify) _____

15. Have you availed any loan? (Yes/No) If yes, from whom? The bank / The money lender

16. Why you preferred moneylender other than bank?

a. Lengthy legal procedure b. Language c. delayed credit d. insistence of collaterals
 e. others _____

17. What is the amount of loan that you have got?

Less than 10000/10k – 20k / 20-50k/>50k

18. Purpose of taking a loan:

Agriculture/ animal husbandry / start own business/ marriage /health/ others

19. Please kindly rate the below expectations in scale of 1 – 5:

Customer Expectations	Rating 1-5
Are you satisfied with the services provided by your bank?	
Is the SHG/NGO doing a good work for financial education of the villagers?	
Is Government doing satisfactory work for financial inclusion?	
Are you satisfied with the products which are offered by your bank?	

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