

FINANCIAL SERVICES TO THE RURAL POPULATION: A STUDY ON
THE ROLE OF RETAIL BANKS IN SAUDI ARABIA

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ABSTRACT

Financial services form the backbone of the economy of any country. They are responsible for generating and managing money and hence, are very important for the development of the country on a whole. Financial services should be provided to everyone irrespective of their income and the classes by the society. This research identifies the role of retail banks in the provision of financial services to the rural people in Saudi Arabia whereby they are facing issues in accessing them. The academicians also have focused less on the topic and hence this research is significant as it has focused on the rural population of Saudi Arabia. The research approach is quantitative methodology whereby questionnaire survey is prepared and in order to find out about the provision of financial services to the poor people in Saudi Arabia. There are 25 participants of Saudi Arabia successfully complete the questionnaire survey. The collected data were further analyses statically and the obtained result concluded that the poor people still lack the availability of financial services in retail banks in Saudi Arabia.

CCS CONCEPTS • Insert your first CCS term here • Insert your second CCS term here • Insert your third CCS term here

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INTRODUCTION

Earlier, the rural population was completely deprived of the idea of the banking and were unaware of how things are carried out in the banks [1, 2]. They were just limited to the use and access of acquiring loans. They did not have enough money to deposit that the banks require as a form of credit to open up an account. They did not have any source to invest or save their money in. Most of their money went towards the fulfilment of the basic amenities. They had nothing but to borrow loans from the banks and get in the vicious circle of payment of loans every now and then. With the high rate of interest, they would have problems in completing the loans offered; most of them had to sell off their assets like land, vehicles, etc to pay the debt they owed to the banks or the individuals they borrowed money from. The retail banking then and thereby, lent hand to the people who could not afford the usual type of banking thereby elevating their level in the performance and providing the needs and wants to the rural people.

Retail banks are however defined as, “The typical mass-market banking in which individual customers uses local branches of larger commercial banks. Services offered include savings and checking accounts, mortgages, personal loans, debit/credit cards and certificates of deposits (CDs)” [3]. This is done to attract a huge amount of customers in the market and look towards the needs of the people on a large scale by providing services in each and every area of the city, state, province, town, etc within a country.

The people that were unbanked were mainly the rural people who could not get the facilities due to the urban structuring of such banks. They are responsible for approving the credit requirements of the people in the rural area. Retail banking has developed a wide range of products over the years to different types of people living in different areas so that the service are accessible to each one of them and not segment them based on where and how they live [4, 5]. It has expanded geographically so that everyone can avail the services with ease and accessibility.

Financial services offered to the customers bring about personal development and on a large scale as well. According to Alexander and Colgate [6], “The development of financial service provision within the retail sector has offered retailers the opportunity to build closer relationships with their customers.” As per Wong and Perry [7], “Customer service is seen as an important factor if a retail bank is to achieve a competitive advantage.” This was done to include the segregated sector of the society into the financial world as the rural area was considered unfit for financial purposes due to poverty. It was tough in the beginning but with time the rural people also understood the financial norms and culture and are long for options that would satisfy their basic needs and requirements. The main reasons why rural areas were not included are because of their lack of knowledge in finance, little accessibility and feasibility to the main financial market, huge default and credit risk set up by people in rural areas in the name of their work. The inadequate streaming of income and expenses in the rural areas also generated problems and issues in the finances and in the market. They had nothing to give back if they were at default except

for their land which is the only asset they have in some cases. The lack of returns and higher risk also stopped retail banks and other financial institutions to help and support these rural areas.

Brief [8] also quoted, “Financial institutions seeking to work in rural areas face numerous constraints, such as poor infrastructure and low education levels.” Most rural people opt for microfinance as their means of financial services. It does not facilitate them on a large scale and hence they face difficulties while accessing these services. Banks are also now entering the rural areas but in a gradual pace. Gilbert [9], analysed retail banking in rural markets and observed that although large, nationwide banks have not become the dominant banks in rural markets, but small, locally owned banks in rural areas for the low population density is not an effective barrier to the entry by large banking organizations.

Bos and Kool [10] confirmed this by stating, “Banks in large rural markets are on average more cost efficient.” Hence banks can look for ways of expanding business in the rural areas as well. It is very important that the banks opt for bridging the credit between the poor and rich people and help rural people avail bank facilities like that of the other customers of the bank. Apart from financial aspect, the societal aspect should also consider these people by helping them in ways like educating them about finance, and assisting them in their financial operations in their work and in the banks as well. Therefore, this study identifies the financial services provided to the rural population through retail banks in Saudi Arabia.

METHODOLOGY

This study used quantitative research approach to gather the primary data regarding the about the provision of financial services to the poor people in Saudi Arabia. The data are collected through questionnaire survey. The questionnaire consists of 10 single open ended questions. There are 25 responses from Saudi Arabia participated in the questionnaire survey. The collected data were analysed in statistical method. The secondary data such as literatures are used as a guide to design the questionnaire question and discuss on the concept of the retail banking in rural areas.

The Concept of the Retail Banking In Rural Areas

To achieve the study objectives, a framework for data collection and analysis was used based on quantitative approach. Data were collected by means of snowballing method. The snowballing method is usually used in populations, which are difficult for researchers to approach such as the case of the males here, and the bank staff in Saudi Arabia. Surveys were distributed through SurveyMonkey.com to acquaintances most of which are Saudi and Non Saudi banks’ customers and bank’s employees.

Result And Discussion

The results showed that the retail banking has brought several changes in the rural areas but it still requires development in terms of proper management

and channelling the risk (default and credit), maintaining proper management and networking systems, and operating with proper staff and infrastructures. Even the regulations and policies are less strict due to which the implementation and including of financial services in the rural areas become vulnerable and of less trust. Therefore, one should consider the facts that there is a huge role of retail banking played for the inclusion of financial services in the rural areas. They are performing savings, loan acceptance and approval easily and making of transfer feasible and accessible.

Questionnaire Survey

There are 25 responses participated in this survey. Based on Figure 1, there are 32% disagree and 68% agree that financial services are provided equally to everyone and everyone have the privileged.

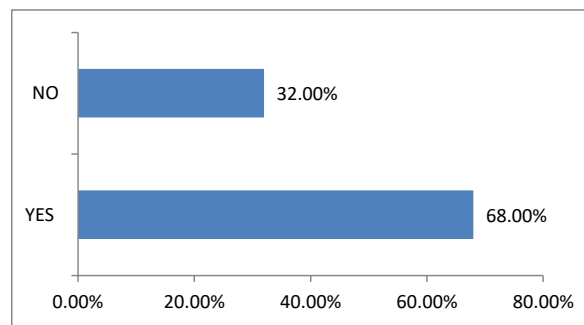


Figure 1: Do you think financial services are provided equally to everyone?

Figure 2 shows that majority of the respondents about 72% thought that banks are proper mediator of services among all the people and there is no lack of service to certain group. Only 38% thinks that there is some problem with it and banks are nor a mediator of services to everyone.

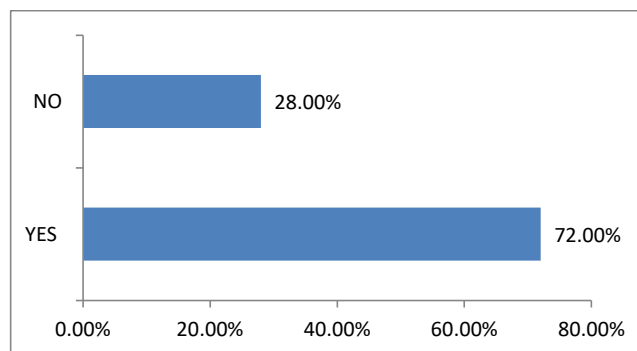


Figure 2: Do you think banks are proper mediators of services among all the people?

Figure 3 shows that 56% of the respondents thinks that the banks are not helping rural people because of lack of interest and capital. In their mind it is important for banks to start helping the rural people. Only 44% thinks that banks are helping rural people in some way.

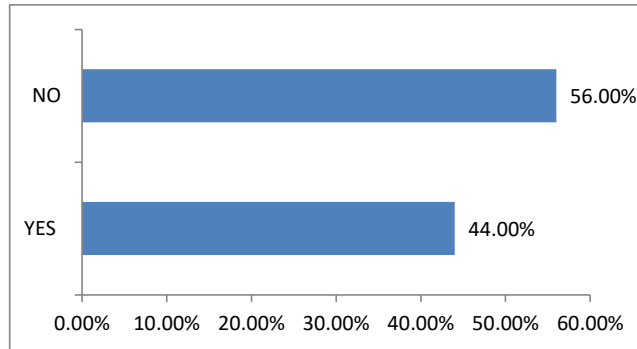


Figure 3: Do you think banks help rural people also?

Based on Figure 4, about 68% of the respondents do not think that banks are helping the poor people at any level. They think that there is no special financial policy or services that can benefit the poor people. While only 32% of the respondents thinks that bank are providing enough services to poor people that we can call this satisfactory.

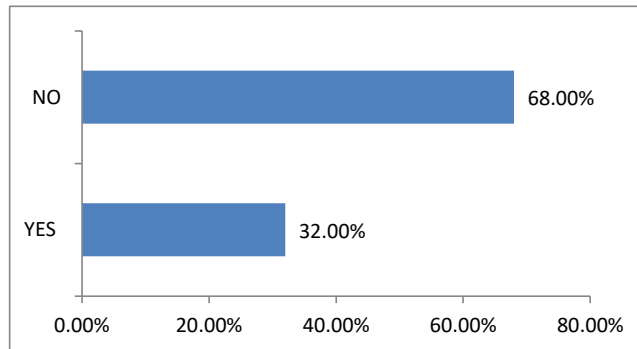


Figure 4: Do you think banks have special financial services for poor people?

Figure 5 indicates that majority of the people 40% preferred loan for people living in rural areas so they can start their own small business with it. About 32% thinks that people should be given credit so they can better utilize it and only 28% thinks that rural areas people must be given mobile banking so they can manage their macro accounts.

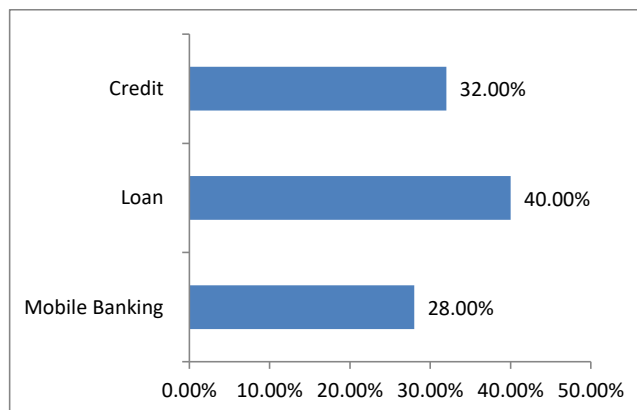


Figure 5: What services can be provided to the rural people?

Figure 6 shows majority of 92% people thinks that these policies will bring prosperity among rural people while only 8% thinks that it needs to be better.

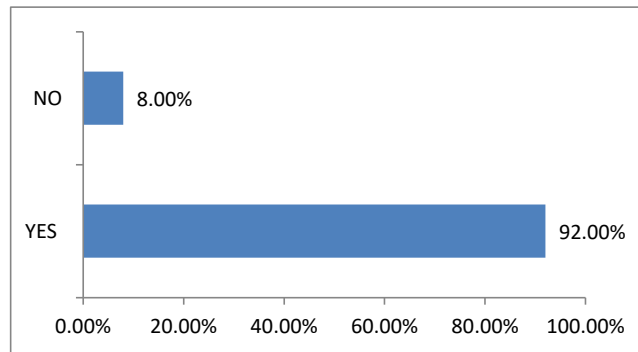


Figure 6: Is it beneficial to the rural people?

According to Figure 7, majority of 80% thinks that due to lack of knowledge banks are ignoring rural people which are not a good thing. While 20% disagree with it that this is not the main issue.

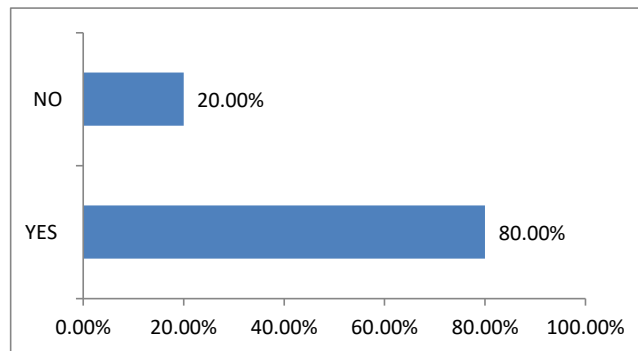


Figure 7: Is it true that banks do not prefer to offer help to rural people as they have less financial knowledge

Figure 8 demonstrates that majority of 56% agree with is that if the banks provide services to poor people then there is a risk of losing all the investment due to their lack of knowledge and proper work. While 44% thinks that banks will not lose anything if they start providing the financial services to poor people.

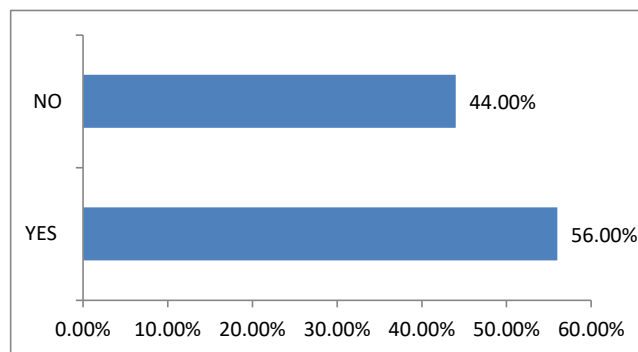


Figure 8: Is it risky to provide financial services to poor people?

Figure 9 illustrates that majority of 68% people thinks that it is beneficial to provide financial services to poor people as it will benefit them and also to bank in expanding their reach while 32% disagree with it and they thinks that banks should avoid this.

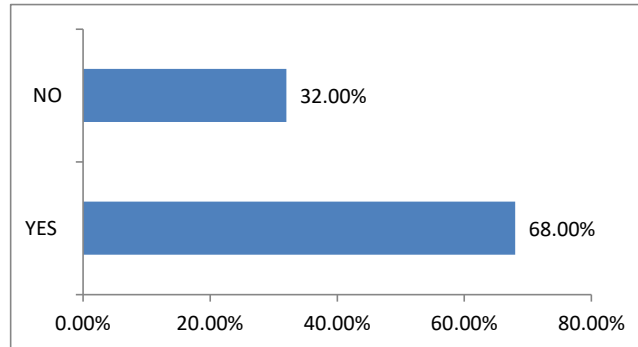


Figure 9: Is it beneficial to provide financial services to poor people?

Figure 10 indicates that 40% of the respondents said that government should provide them easy loans and made a policy for them so they can start their own small business. About 32% responded that private companies and investors should invest in their small farms and business to give them some capital. Also, there are 28% have no idea regarding other financial institutions.

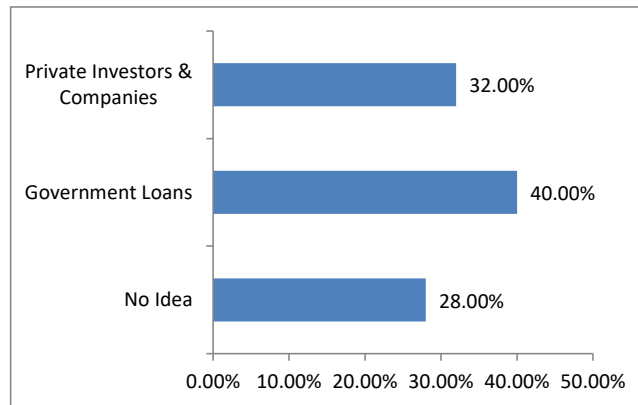


Figure 10: What other financial institutions might help poor people develop their financial aspects?

CONCLUSION

In conclusion, there is a lack of will and determination in the banks to provide assistance and services to the poor people in order to make their life easy. Most of the people agree that banks are only for cooperate world and not for rural or poor people. It is only taking advantages from the rich people and giant companies because of their large capital and deposits. While poor people do not have any deposit or big capital so there are no policies for them. People and companies with big bank accounts can take as much loan as they want and banks is willing to do anything for them while the poor people who really need it are not given a chance.

The services provided to the poor people are not sufficient or they lack basic motivation in order to give them enough help so they can start their own business. People agree with this notion that there must be a mechanism and proper check and balance so banks have to provide a considerable help to rural areas and poor people. The main concern of the people is to create a procedure in which the bank will also get benefit and the risk factor will be minimized. The real need of hour is to educate the poor people and let them use the new technology in order to get them along with us. The new technology is making life easier and if they start using it then there is a hope that banks will provide those services more comfortably. The last thing is the effort from government and financial institution that they need to make an example and give encouragement to banks to start implementing these policies.

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