



## Higher Institution Students and the Un-banked Rate in Duhok City, Iraq? Evidence from a Survey Analysis

**Sardar Shaker Ibrahim**

*Corresponding Author: Assistant Lecturer, Financial and accounting techniques, Duhok Polytechnic University, Duhok, Iraq. Email: [sardar.shaker@dpu.edu.krd](mailto:sardar.shaker@dpu.edu.krd)*

ORCID ID: <https://orcid.org/0000-0002-7519-2137>

**Odunayo Magret Olarewaju (PhD)**

*Senior Lecturer, Department of Management Accounting, Durban University of Technology, South Africa. Email: [odunayoo@dut.ac.za](mailto:odunayoo@dut.ac.za)*

ORCID ID: <https://orcid.org/0000-0002-4366-040X>

### Abstract

*This paper attempts to inquire on why higher institution students in Duhok are not opening or having bank accounts. With the use of interview process and questionnaire, 100 students were selected from Newroz University, Dohok Polytechnic University and Dohok private technical institute in Duhok city. It was found from this study that most of these students' approximately 90 students of them have no bank accounts while only 10 of them have bank accounts. Moreover, this research found that trust on banks, security, bad banks infrastructure, lack of money, costs of opening bank accounts, access to bank accounts and unemployment are the main reasons for low banking interest among students in Duhok city. However, the highest reason is lack of trust on Duhok banks and lack of money due to high unemployment rate. It is suggested that banks in Duhok city should encourage students to open bank accounts by advertising the importance of banking services and offer student loans. Also, Duhok government should award scholarship to student to ease the pressure from the unemployment menace in the country.*

**Keywords:** Un-bank, Bank trust, Poverty, Banking access

**JEL Classification:** G21

## **Introduction**

It can be discussed that opening bank accounts by students is one of the most significant subjects currently because competition has increased between several banks and each bank tends to control customers by force of their financial services. It might not be clear till now which bank is established first while; Hilldredth (2001) claimed that first bank was established in Venice approximately seven hundred years ago, followed by other banks in other countries. Moreover, in Iraq and Kurdistan region, banks were created in the mid of 1930 after the Iraqi government decided to establish banks in order to improve their economics. According to Iraqi central bank, Iraqi national bank was established in 1947 and they have been re-established as the central bank in 2003 after the collapse of the Iraqi regime. In most or all the countries, banks play an effective role in economic improvement. Kalpana and Rao (2017) and Casu et al. (2006) claimed that banks play vital role in countries' economic development. In the same way, Aithal (2016) and Heffernan (2005) stated that banks work as intermediary between borrowers and savers. Furthermore, Monnin and Jokipii (2010) found that when the banking sector is stable there will be evolution of product whereas instability in this sector will inadvertently affect output growth. Kapoor (2009) revealed that without banking systems capital markets may not work effectively.

It is not an exaggeration to say that in developing countries such as Iraqi Kurdistan region, the role of banks is not very effective in economic development. According to RTI International report (2008), the role of modern banking is not very effective in Kurdistan region despite having about 44 banks operating in the region with 56 branches even though the majority of these banks are private. It has been affirmed that only 54 per cent of individual have bank accounts in developing countries and instead of opening bank accounts individual keep their money at home (Dupas et al., 2018). Moreover, Chipeta and Kanyumbu (2018) found from their survey that approximately 81 percentages of adults were un-banked in 2008 in Malawi and this rate decreased to 67 percent in 2013. However, compared to developed countries, the rate is lower. For example among US households in 2017 only 6.5 percentage is unbanked ("FDIC: 2017 FDIC National Survey of Unbanked and under banked Households", 2019).

This research will examine one hundred participants. These participants are students studying at three different universities with the aim to acquire further information about the reasons for not opening bank accounts by these Students in Duhok city. The questions for these interviews arose from our experience and this questionnaire required them to disclose information about this issue. This new research will not only examine the reasons for low bank account openings but clarify the importance of having bank account in general and finally reflect on how Duhok banks can provide better services to attract more clients.

Not opening bank accounts by students in Duhok city is because of various reasons that are clearly spelt out to a number of banks. Undoubtedly, knowing the factors behind this phenomenon will help Duhok banks to provide better services in order to attract more customers and reduce the poverty rate in the country. So, the main question this study inquires to answer is: why do students have not bank accounts in Duhok city?

The main aim of this research is to discover and evaluate the main reasons behind un-opening of bank accounts by students in Duhok city.

## **Literature review**

There are several literature found that banks play essential role in economics and may reduce poverty. Economic stability and low poverty can be achieved by well-functioning banks and other financial institutions (Demetriades and Luintel, 1996; Goldsmith, 1969; Bencivenga and Smith, 1991; Cameron, 1967; McKinnon, 1973; Patrick, 1966; Shaw, 1973 cited in Singh and Kumar, 2017). Not only local banks are important for economic improvement but also foreign banks are essential for progress purpose. Also, Tunaya and Yüksel (2017) stated that countries with low poverty will have stronger operations of foreign banks. They also believed that if developing countries want to improve their economics, foreign banks will be a good chance for that. Also, when an individual put their money in a bank this means he can access the banking services. Solo and Manroth (2006) defined the term of accessing to financial services as the access to all services

including different types of bank accounts and bank cards. According to this study, accessing financial services declined in Colombia because of decrease in the level of financial intermediation.

It is so sadden that a larger percentage of people in Iraq including students have not access to banking services because they do not have bank accounts. This is not because there are no banks in Iraq and Kurdistan region in general and in Duhok city in particular, but, because of a number of reasons that we quest to examine in this study.

There are a significant number of reasons behind not opening bank accounts in Duhok city by students and other individuals. The first reason to note is that the rate of poverty in Kurdistan region rose from 3 percent to 15 percent from 2013 to 2016 (Rudaw report, 2016). So that not having money or less income is popular among students in this region this may lead to un-banking. As Chipeta and Kanyumbu (2018), Honohan (2008) and Solo and Manroth (2006) believe that individuals with high salaries have more access to banking services than one with low incomes. Unemployment may be one of the reasons behind un-opening bank accounts by students because almost all of them are un- employed and they do not have enough money to open bank accounts. For instance, Ansari et al. (2017) examined the reasons of un-banking in Pakistan and found several reasons such as unemployment and lack of money. Moreover, in a study about assessment of expansion of financial access for the poor individual in Indonesia using six provinces for judging creditworthiness, an approximate of 40 percent of Indonesian households were creditworthy (Johnston and Morduch, 2008). Students who are employed by government may have bank account but the others may not. Kumar et al. (2016) concluded that there is a positive link between opening bank accounts and receiving money or benefits from government in their study about determinants which effect on customers when the use bank accounts. It can be clearly seen opening bank accounts is positively linked with having money or income.

Another factor behind un-opening bank accounts by students to note might be religious believes. The majority of people in Kurdistan region are Muslims and according to Islamic sharia interest rate is prohibited. Mustofa (2018) and Uddin (2015) stated that interest rate is forbidden by Islamic Sharia. So that students and individuals in this region prefer to keep their money at home instead of depositing at bank because of interest rate or Riba. There is no expansion of banking operations in Kurdistan because of Islamic religious beliefs (Singh and Bradosti, 2015). It might be good to say that there are some Islamic banks in Kurdistan region and Duhok city but students still have no access to those banks. Moreover, Singh and Bradosti (2015) stated that government and Islamic society should help banking operations in Kurdistan region for positive performance of banks in this region.

Another reason might be lack of trust on banks in Duhok city. Many authors supported that trust and confidence are important in financial and banking services including: (Jurevičienė and Skvarciany, 2013; Ashraf et al., 2015; Sekhon et al., 2014; Knell and Stix 2015; Tóth, 2009; Ennew et al., 2011). The profitability and performance of banks might be decline when there is no trust on banks. For example, Phiri and Muponda (2016) found that when public trust on banks is low, there will be a significant influence on performance of banks in Zimbabwe. Moreover, in the study about examining consumer trust in banking in Europe by Raija (2014) found that the main thing in bank accounts is the consumer trust because Kiss et al. (2018) believe that there will be withdrawn of money by depositors when see others do. It is clear that banks should focus on public trust to attract customers to open bank accounts and keep their money at these banks.

Another reason might be because banks in Kurdistan region and Duhok city do not use electronic systems and new technologies in their banking operations. Now days in various countries customer access to banking services by phone and online and these methods are not popular in Duhok city. For instance, Tchouassi (2012) believes that a good way to deliver financial services to unbanked is mobile phone. Nandru et al (2015) believe that there is a significant relationship between using banking services and the access to bank products. It can be seen from the above banks in Duhok city may work further to deliver their services to students online.

## Methodology

The main way to obtain and collect information directly from participants is interview because it is flexible. Also, interviewer gets response quickly while its time consuming and difficult for analyses (Gibbs, 2011). Three questions were asked by the interviewers including: Do you think opening bank account is important? Are there banks near to you or in your city? Do you have a bank account? And if the answer is no for the last question the reason of not opening bank account should be mentioned by students.

## Results and discussion

It can be clearly seen from the data in Table 1 that all the interviewees are from three different universities in Duhok city such as Newroz University, Duhok Polytechnic University and Duhok private technical institute. Moreover, these interviewees study different subjects in different departments at these universities. As can be seen from the Table 1 the highest rate approximately 62% of interviewees were male and it is interesting to note only 38% of them were female. It is not surprising also to say that most of the students' age was between 21 to 39 years old. They are young because most of them are second and fourth year college students.

**Table 1:** Response and Percentage of Variable

VARIABLE	NO OF RESPONSE	PERCENTAGE
MALE	62	62%
FEMALE	38	38%
TOTAL	100	100

Source: Authors calculation (2019)

Table 2 shows the initial analysis of questions asked to students. It can be seen from the below table that the highest number of students said that opening bank account is important, while 13% of them said that opening bank account is not important. Another question might be important to ask which is; is their banks near to you or in your area? Almost all students answered this question and nearly 86% of students said that there are banks near to them, while 14% of them said there are no banks near to them. This is because they life in a village and it is clear there are no banks in villages of Duhok city. The last question and important ones were asked which was do you have a bank account. It is surprising to say that approximately most of them said they do not have bank accounts because of several reasons. However, only 10% of students have bank accounts. As can be seen from the table below:

**Table 2:** Number of Answers

	Yes	No	percentage
Do you think opening bank account is important	87	13	100
Is there banks near to you or in your city	86	14	100
Do you have a bank account	10	90	100

Source: Authors calculation (2019)

What is striking in table 3 is the high rate of students about 47 percentage do not have trust on banks in Duhok city. As many authors including, (Jurevičienė and Skvarciany, 2013; Ashraf et al., 2015; Sekhon et al., 2014; Knell and Stix 2015; Tóth, 2009; Ennew et al., 2011) believe that trust is an important factor in opening bank accounts. This might be because security of Duhok banks is not good as 4 per cent of students support this reason. This result is consistent with results of Ansari et al (2017). Moreover, it can be clearly

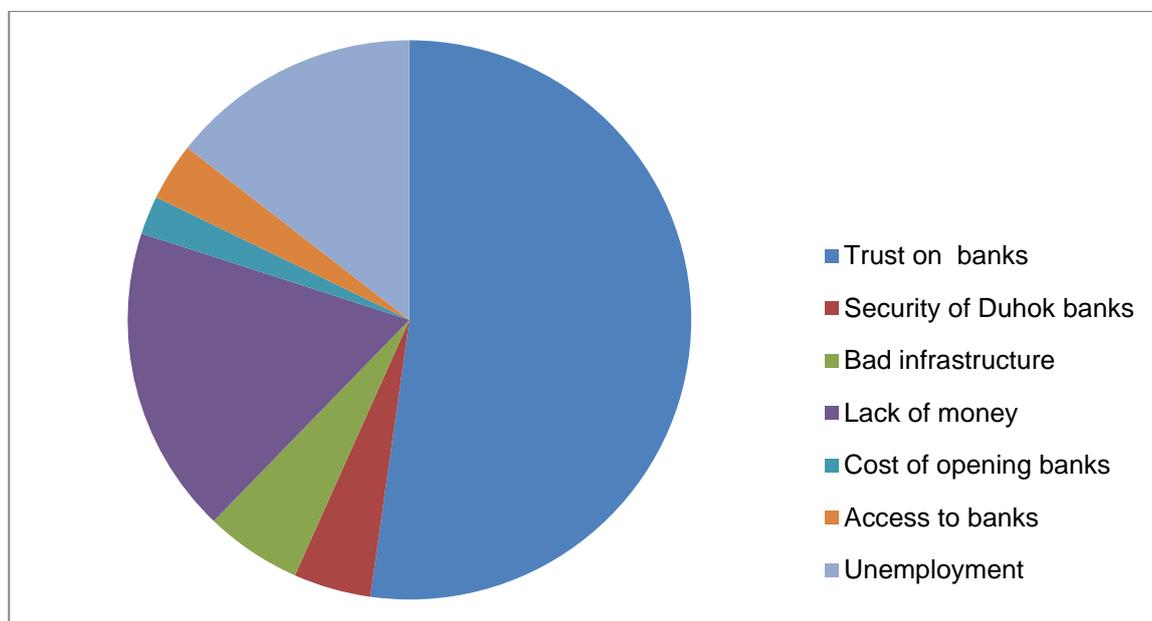
seen also from that table lack of money was second reason that was mentioned by students which is about 16 per cent. This result is in line with Chipeta and Kanyumbu (2018), Honohan (2008) and Solo and Manroth (2006). This might be because poverty rate has risen in Kurdistan region and in Duhok city. Furthermore, unemployment is the third highest reason approximately 13 per cent and this is in line with Kumar et al. (2016).

**Table 3:** Reasons for Non-opening of bank account by Duhok Higher Institution students

Reasons mentioned by Students	Percentage
Do not trust on Duhok banks	47
Security of Duhok banks is not good	4
Bad infrastructure of Duhok banks	5
Lack of money	16
Cost of opening bank account is high	2
Difficult to access Duhok banks	3
Unemployment	13
	100

**Source:** Authors interview calculation (2019)

What is interesting in table 3 is that 5 per cent of students have not bank accounts because of bad infrastructure of Duhok banks. Likewise, 2 per cent of students believe that cost of opening bank account is too high in this city and they said they have no bank accounts because of this reason. Surprisingly, 3 per cent of students said that access to bank accounts in this city is difficult.



**Figure 1:** Un-banked reasons among students in Duhok universities

**Source:** Authors interviews

In contrast to earlier findings from developed countries, in 2017, only 6.5 percentages of US households were un-banked. Likewise, 68.4 per cent of households were fully banked in US, compared to 10 per cent in Duhok city. It is clear from the above that there is still un-banked rate in US but it's considerably lower than

in Iraq and Kurdistan region and in Duhok city. More interestingly, no one of students mentioned un-banking reason is because of interest rate in terms of religion and this might be because there are many Islamic banks in Kurdistan region and Duhok city. This result is not in line with Singh and Bradosti (2015) who supported that Islamic beliefs are the border of banking operation expansions in Kurdistan region. Moreover, this result is also not in line with Ansari et al. (2017). It is clear from the results that interest rate beliefs are not the reason of opening bank accounts by students in Duhok city.

## **Conclusion**

It is an undeniable fact that opening bank accounts is very important element to have effective economic development. Thereby, most of students in Duhok higher institutions have no bank accounts and through the interview process the main reason behind this situation were found. Students of two universities and one other institution in Duhok city were interviewed to know their reasons why they do not have bank accounts. In addition, interview process was successful and the interviewees explained essential factor of not opening bank account by them. The significant reason behind this phenomenon were trust on banks, security, bad infrastructure of banks, lack of money, cost of opening bank accounts, accessing to bank accounts and unemployment; moreover, this is in line with Ansari et al. (2017). From the 100 students only 10 of them had bank accounts the other ones had not. 47 per cent of students said that lack of trust on Duhok banks is the reason behind them to not open bank account. Lack of money and unemployment 16 and 13 per cent respectively were the second and third largest reason among these students. This research found that interest rate in terms beliefs have no impact on students in Duhok banks and this results is not in line with Singh and Bradosti (2015).

## **Recommendations**

As Singh and Bradosti (2015) stated that Government and Islamic society should support banking operations in Iraq and Kurdistan region. Similarly, Ansari et al (2017) recommended that government should help banking sector in Pakistan. It is suggested that banks in Duhok city in conjunction with authorities in that city should encourage students to open bank accounts by providing student loans. Moreover, banks in that city should focus more on advertising their services and mention the importance of opening bank accounts for the society all. Banks also may play further role by decreasing costs of opening bank accounts. Finally, it seems clear that banks in Duhok city should build a level of trust and confidence in their services in order to get people convinced to open bank accounts with them. Although this research suggests that critical infrastructure like security and telecommunication must be strengthened to ensure the application of electronic banking in Duhok banks. In order to know the correct reasons behind un-banked among students in Iraq and Kurdistan region there should be further researches and considering all high institutions in this country.

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