CHAPTER IV
RETAIL BANKING OF THE REGIONAL RURAL BANKS

4.1. Introduction

In the modern competitive environments, services are gaining increasingly more importance in the competitive formula of both firms and countries. With a jump in the Indian economy from a manufacturing sector, that never really took off, to a nascent service sector, banking as a whole is undergoing a change. A larger option for the customer is getting translated into a larger demand for financial products and customization of services is fast becoming the norm more than a competitive advantage. Retail banking in India has fast emerged as one of the major drivers of the overall banking industry and has witnessed enormous growth in the recent past. It has evolved from a time when the mindset of a traditional middle class Indians used to be debt averse, which preferred managing under their thrifty means to the current mindset which doesn’t hesitate in taking loans for spending. The changing customer demographics compel to create a differentiated platform based on latest technology, improved service and banking convenience. With the retail banking sector expected to grow at a rate of 30%, players are focusing more on the retail and are waking up to the potential of this sector. Furthermore, the increasingly competitive environment prevailing in the global market and rapid advances in customer intelligence technologies have led retail banks to look for new business and
marketing models for realizing intelligence-driven customer transactions and experiences. In this chapter, an attempt has been made to review the retail banking of the regional rural banks in Tamilnadu.

4.2. Evolution of Regional Rural Banks

The idea of ‘Rural Bank’ was first suggested by the Bengal National Chamber of Commerce in its memorandum to the Rural Banking Enquiry Committee, 1950. It suggested setting up of one rural bank in each taluk with a paid-up capital of Rs.1 lakh, with permission to scheduled banks to sponsor it in rural areas. The sponsor banks were expected to contribute 50 per cent of the capital of each rural bank and the balance by the public or the provincial government. This was an interesting suggestion which contained the essence of modern regional rural banks.¹

In our country, co-operative mechanism was the only form of institutional credit for bridging the rural credit gap. Recognizing the vast field of rural lending, the RBI sought to give a new orientation to the growth of commercial banking so as to use it as a supplement to fill up the visible gaps in the rural credit system. The first effort to involve a commercial bank in rural finances, however, began with the conversion of Imperial Bank of India into State Bank of India in 1955 in accordance with the All India Rural Credit Survey Committee Report, 1954.

In view of the Green Revolution and modernization of farm enterprise which has started taking place in a significant path since 1966, it was felt that co-operatives by themselves and alone would not be in a position to meet all the credit needs of the expanding farm sectors. The next important event in the organization of rural financing, according to Guglani and Pandey, was the introduction of ‘social control over banks’ in 1968 to provide finance to priority sectors when, as commercial bank could not enter the rural financing in a big way, 14 major commercial banks were nationalized on July 19, 1969.

In December 1971, the National Commission on Agriculture in its interim report on credit services for small and marginal farmers and agricultural labourers expressed the view that it might be ultimately necessary to set up Agricultural Development Bank of India on the lines of Industrial Development Bank of India. According to Vasant Desai, since the early 1970’s there has been a growing realization that the ethos and attitudes of public sector banks were not conducive to the satisfaction of the credit needs of the rural population, especially those of the weaker sections.

Though two tiers of rural credit, namely co-operative credit and agricultural credit by commercial banks, were in operation for the uplift of


rural poor, much headway could not be made.\textsuperscript{4} The co-operative banking system was constrained by the dominance of vested interests, managerial weakness and high overdues and the commercial banking system was handicapped on account of high cost structure and disinclination of its employees for rural service.

The Banking Commission was appointed by the Government of India in 1972 which made a proposal for setting up of a new type of rural banks to bridge unfilled gap left out by the co-operative and commercial banks. But the Government of India did not take any action with respect to the recommendations of the Banking Commission till June 1975. It was the announcement of 20-Point Economic Programme on July 1, 1975, that led to a rethinking on rural banks among the policymakers in India.

The implementation of the 20-Point Economic Programme which aimed at ‘squashing the rural debts owed by small farmers to unorganized indigenous exploitative agencies and provision of adequate credit at a cheaper cost necessitated the opening of rural banks in rural areas to fill in the gaps created by the eviction of money lenders. Accordingly, the Government of India appointed on July 1, 1975, the Working Group on Rural Banks headed by Narasimham to examine in-depth the setting up of new rural banks as subsidiaries of public sector banks to cater to the credit

needs of the rural people. The Group submitted its report on July 30, 1975. The Working Group observed that “in a country of the size and regional disparity like ours, no single pattern be it commercial banks or co-operative credit, can be expected to meet all the emerging requirements in all areas. A degree of adaptation and improvisation is called for and the range of institutional alternatives widened.” The Narasimham Committee recommended a new type of institution, “which combines the local feel and familiarity with rural problems which co-operatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and a modernized outlook which the commercial banks have. The role of the new institution should be to supplement and not supplant the other institutional agencies in the field”.

Based on the recommendations of the Working Group, Government of India promulgated the RRBs Ordinance on September 26, 1975, which came into force with immediate effect and which extends to the whole of India. In terms of Ordinance, the central government is empowered, on the request of any bank called ‘Sponsor Bank’, to establish in a State of Union Territory one or more RRBs with such name as may be specified in the notification issued by it. Later, the Ordinance has been replaced by RRBs Act, 1976. Thus, the RRBs which are state sponsored, regionally based, and

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rural oriented commercial banking institutions appeared in rural India in 1975. On a pilot basis only 5 RRBs were started in 4 districts on the eve of 106th birth anniversary of Mahatma Gandhi.

The establishment of RRBs in October 1975 marks an important landmark in the history of Indian banking. RRBs were primarily set up with the objective that they should form an integral part of rural credit structure along with co-operative and commercial banks under the multi-agency approach to rural lending. While co-operatives and commercial banks finance farmers in general, RRBs mainly cater to financing small/marginal farmers and agricultural labourers. The RBI in its report has described the setting up of the RRBs as a development which will have a far reaching effect on the extension of banking facilities to the rural areas.

The rationale of setting up of RRBs, as one can visualize, is to generate a self-sustaining process of development in the rural areas by mobilizing the rural saving for the purpose of meeting credit requirements especially of the weaker sections of the rural population. Thus, the RRBs have emerged as the third tier and the latest component of the multi-agency

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credit system devised and designed to develop the banking activities in the rural areas for integrated rural development. The main objectives for the establishment of RRBs are as follows:

- To develop the rural economy
- To provide credit for agriculture and allied activities, particularly to small and marginal farmers
- To encourage village industries and rural artisans
- To reduce the dependence of rural people on money-lenders
- To fill up the gap created by moratorium on borrowings from money lenders
- To generate employment opportunities in rural areas
- To help the poor financially for their consumption needs
- To take the banking facilities to the door steps of the rural masses particularly to higher to unbanked rural areas

4.3. Profile of the Select Regional Rural Banks

The brief profile and various retail banking services of the select regional rural banks are narrated below:

4.3.1. Pandyan Grama Bank

Pandyan Grama Bank, a regional rural bank sponsored by Indian Overseas Bank, was established on March 9, 1977, with its headquarters
located at Sattur, a small town in the backward district of Ramanathapuram. It was the 43rd RRB in the country. But it was the first RRB to come up in Tamilnadu. Pandyan Grama Bank was originally assigned two districts as its area of operation, namely Ramanathapuram and Tirunelveli districts. Ramanathapuram district was industrially backward in Tamilnadu State. At the end of 1977, the year in which Pandyan Grama Bank was set up, the number of persons covered per bank office was 17,000 in Tamilnadu, 15,000 in Tirunelveli district and 18,000 in Ramanathapuram district. Right from inception, the Pandyan Grama Bank has been making remarkable progress in achieving the objectives for which it was set up. The Pandyan Grama Bank has played a vital role in improving the coverage of bank office mainly in rural areas in the five districts covered by it. In July 1993, the Administrative Office of Pandyan Grama Bank was shifted from Sattur to Virudhunagar. Since Virudhunagar is the centre place for all the districts where the branches of the Pandyan Grama Bank are functioning, effective control by the head office becomes easier. The number of branches of the Pandyan Grama Bank went up impressively from 25 in 1977 to 246 the end of March 2014.

4.3.1.1. Share Capital

The shareholders of the Pandyan Grama Bank are Government of India, Indian Overseas Bank and Government of Tamilnadu. Their share
participation is in the ratio of 50:35:15, respectively. The bank’s authorized share capital is Rs.5 crores and the paid-up share capital is Rs.75 lakhs of which Government of India has contributed Rs.37.50 lakhs, Indian Overseas Bank has contributed Rs.26.25 lakhs and the Government of Tamilnadu has contributed Rs.11.25 lakhs.

4.3.1.2. Coverage of Districts

Each Pandyan Grama Bank operates within specified districts in the state. Generally, the RRB for its operation will have a compact area of one to five districts with homogeneity in agro-climatic conditions and rural clientele. At the time of inception, Pandyan Grama Bank covered only two districts, namely Tirunelveli and Ramanathapuram. But, the Pandyan Grama Bank is now serving sixteen districts.

4.3.1.3. Branch Expansion

Branch expansion is an index of bank progress. An objective of the establishment of RRBs is to extend banking services to hitherto unbanked rural areas, which could help mobilize idle savings, if any, and extend credit to weaker sections. The main purpose of RRBs can be well served only by rapid expansion of branches within the area of its jurisdiction. The Pandyan Grama Bank starting with 25 branches in 1977 increased its branches to 246 in March 2014.
4.3.1.4. Retail Banking of the Pandyan Grama Bank

The Pandyan Grama Bank offers a wide range of retail banking services which are indexed here:

I. Deposit Products

- Short deposits
- Fixed deposits
- Seervarisai Thittam Thingal Thorum Thiraviam
- Recurring deposits
- Niitham Valar Nithi
- PGB double
- PGB tax saver

II. Loan Products

- Kisan credit card
- Agricultural crop loan
- Agricultural jewel loan
- Allied activity loan
- Farm mechanization loan
- Minor irrigation loan
- Fisheries loan
- General cash credit
- Self-Help Group finance and joint liability group finance
• Loans for small business enterprises
• Demand loan against deposits, NSC bonds and LIC policy
• Loans for small scale industries
• Loans for village and cottage industries
• Business/trade loan
• Loans for transport operators
• Jewel loans
• Consumer loan to salaried persons
• Loans for medical professionals
• Housing loan
• Loans against rent receivables
• Car/vehicle loans
• Easy loans
• Grameen tatkal scheme
• Insurance business
• Micro credit
• Farmers' clubs

4.3.2 Pallavan Grama Bank

Pallavan Grama Bank, sponsored by Indian Bank, was formed on 31.08.2006 by an amalgamation of erstwhile Adhiyaman Grama Bank, Dharmapuri and Vallalar Grama Bank, Cuddalore as per GOI Gazette Notification dated 31.08.2006. Prior to amalgamation, Adhiyaman Grama
Bank with its headquarters at Dharmapuri was functioning in two districts viz. Dharmapuri and Krishnagiri and Vallalar Grama Bank with its headquarters at Cuddalore was functioning in two districts viz. Cuddalore and Villupuram. After amalgamation, the bank has been allotted additional 11 districts viz. Coimbatore, Tirupur, Erode, Kanchipuram, Karur, Namakkal, Nilgiris, Salem, Thiruvallur, Thiruvannamalai and Vellore taking the total number of districts to 15.

4.3.2.1. Mission

To provide superior proactive customer services to the rural public spread all over the 15 districts of northern Tamilnadu. Its credit products have been designed in a highly competitive manner and to make its customers benefited to their full satisfaction.

4.3.2.2. Vision

- To become number one bank among regional rural banks in the country from the present 6th position in a totally planned manner. Like every organization, our bank also goes through phases of birth, growth, maturity and rejuvenation.

- To surface as the best bank through integration of customer, technology and service. To continue to be customer friendly, evolving new models for effective outreach and to emerge as a
receptive organization with precise blend of innovation and social responsibility.

4.3.2.3. Share Capital

The shareholders of the Pandyan Grama Bank are Government of India, Indian Bank and Government of Tamilnadu. Their share participation is in the ratio of 50:35:15, respectively. The bank’s authorized share capital is Rs.500 lakhs and the paid-up share capital is Rs.200 lakhs of which Government of India has contributed Rs.100 lakhs, Indian Bank has contributed Rs.70 lakhs and the Government of Tamilnadu has contributed Rs.30 lakhs. Both the erstwhile RRBs have been selected for restructuring and additional capital has been infused to them. The amount of share capital deposit received stands as follows: Government of India - Rs. 227.89 lakhs, Indian Bank - Rs. 159.53 lakhs, and the Government of Tamilnadu - Rs. 68.36 lakhs.

4.3.2.4. Retail Banking Services offered by the Pandyan Grama Bank

The Pandyan Grama Bank offers the following retail banking services to its customers and public:

- Pallavan Chutti Plus savings bank account
- Pallavan Youth Plus savings bank account
- Pallavan Sowbaghya fixed deposit
• Pallavan 555 fixed deposit
• Pallavan Muthusaram recurring deposit
• Pallavan Surabhi variable recurring deposit
• Pallavan Navarathana reinvestment plan
• Pallavan 555 reinvestment plan
• Pallavan tax saver
• Pallavan Kanakadhara jewel loan
• Pallavan Gomatha plus
• Pallavan senior gold jewel loan
• Pallavan Suraksha insurance plan
• ATM cards
• SMS alerts
• Money transfer facility
• Pallavan Seva gram project
• Pallavan Akshaya savings bank
• Pallavan Kathiroli Kanakku

4.4. Summary

In this chapter an attempt has been made to review the various retail banking services of the regional rural banks in Tamilnadu. The regional rural banks offer most common retail banking services such as installment loans, residential mortgages, agricultural loans, etc. to varied types of customers. The aim of the retail banking is the one-stop shop for as many
financial services as possible on behalf of retail clients. Moreover, these have even made a push into investment services such as wealth management, brokerage accounts, private banking and retirement planning. While some of these ancillary services are outsourced to third parties, they often intertwine with core retail banking accounts like checking and savings to allow for easier transfers and maintenance.