Chapter 6
SUMMARY OF FINDINGS, CONCLUSION AND SUGGESTIONS

Banking industry in India, which consists of nationalised banks, scheduled commercial banks, co-operative banks and new generation private and foreign banks, is one of the largest banking systems of the world, in terms of number of institutions, diversity of activities and volume of business. Regional rural banks are specialized institutions set up to cater for special financial needs of the rural people, who are deprived of formal banking, and engaged mainly in agriculture, small industry, handicrafts and other small scale income generating activities. Passing through good and bad weathers of growth, financial distortion, restoration, amalgamation and recapitalisation, RRBs are now standing as the powerful instruments for financial inclusion of rural areas in India. They account for 37 per cent of total rural offices of all scheduled commercial banks and 91 per cent of their work force is posted in the rural and semi urban areas. Further, they operate 31 per cent of deposit accounts and 37 per cent of loan accounts in the rural areas. Out of the 22.38 lakh SHGs credit linked by the banking industry, 33 per cent of the linkages are by RRBs (RBI, 2009 and NABARD, 2009). Thus, RRBs are the most prominent rural development financial institutions of India.

South Malabar Gramin Bank, one of the biggest RRBs in India and the largest in Kerala with 228 branches spread across eight districts of Kerala with head quarters in Malappuram, one of the backward districts of north Kerala. The total business of the bank has crossed Rs.5000 crore with a customer base of nearly two million people. The average CD ratio of the bank for the last ten years is between 95 and 100 per cent. Within the last three and a half decade of successful operation, it has become one of the best known banks in Kerala. Around 80 per cent of the branches of SMGB have been located in the four northern districts such as Palakkad, Malappuram, Kozhikode and part of Waynad.
Despite good customer feeling, public respect and resultant business, expansion programmes of the bank seems virtually ceased in northern Kerala. Moreover, the present mood of branch expansion is to locate branches in urban and semi urban areas in the southern districts of Kerala. Thus, an empirical study assessing the role of SMGB in the development of northern districts of Kerala deserves due consideration.

The study has been carried out with the following specific objectives in view:

1. To study the measures of SMGB for the promotion of agriculture, industry and service sectors of northern Kerala.

2. To assess the effect of the promotional measures on the socio-economic status of beneficiaries of SMGB in northern Kerala.

3. To examine the operational and financial performance of SMGB.

The study is empirical in nature. All offices of SMGB in the four districts of Kerala viz., Palakkad, Kozhikode, Malappuram and Waynad constitute the universe of the study. There were 185 offices including area offices and head office to SMBG on 31st March 2010. Of these, 40 offices in proportion to the total number of branches in each district were selected at random, as Malappuram 17, Kozhikode 15, Palakkad 4 and Waynad 4. The borrowers and officials of the sample offices were the respondents. There were 81639 customers in the 40 branch offices on 31st March, 2010. Of these, 400 customers (Palakkad 31, Malappuram 177, Kozhikode 150 and Waynad 42) were selected as the first category of respondents. While selecting the customers due representation was given to agriculture, industry and service. Of the 400 customers, 112 were from agriculture, 105 were from industry and 183 were from service sectors. The officials of the 40 selected branches were the second set of respondents. Of the
total 201 officials in the 40 selected offices, 100 officials (50%) have been selected. Convenient sampling technique was used for selecting the officials.

Both primary and secondary data were used for the study. The primary data were collected from the sample respondents through two sets of pre-tested structured interview schedules. The secondary data were collected from the Annual reports of SMGB, NABARD, RBI, books, periodicals, Committee reports and the Internet. For data analysis, statistical tools viz., average, percentage, weighted mean, chi-square, ANOVA and Z test were applied.

6.1 Major Findings of the Study

The major findings of the study on the basis of the analysis of the data are summarized below:

A. Profile of the Sample Customers
1. Majority of the customers of SMGB is male category and the customers have an average age of 49.12 years with an educational qualification below higher secondary. Regarding the employment and income of customers, most of them are self employed, or engaged in agriculture related activities hailing from small families, with an average annual income of Rs. 16000.

2. One fifth of the customers of SMGB belong to below poverty line category and 8 per cent of them are SC/STs. Of the total sample only 7 per cent belong to the category of youngsters.

B. Banking Traits of Customers
1. Virtually all the customers of SMGB are permanent ones and are largely depending on the bank for loans only.

2. Service sector loans are the most sought after loans, followed by agriculture and industrial loans.
3. Only 4 per cent of the customers of SMGB are with less than 5 years in relation with the bank.

4. Proximity of the bank is the strongest factor that attracted customers to SMGB in all the four districts, and the least difficulty they experience compared with other banks, personal relation with bank employees and suitability of schemes are also supporting factors. But the other specialties and facilities offered by the bank, being a RRB, have not been perceived by customers in the true sense.

5. Regarding the mostly offered collateral, there is a difference of opinion among customers and officials. Most of the customers opined that, simple deposit of title deeds is the collateral in most cases while the officers opined that hypothecation of assets created is the most common collateral. When explored, it is understood that the customers are unaware of the fact that their assets had been hypothecated to the bank.

C. Profile of Officials

Most of the officials of the bank, irrespective of their positions, are graduates, with over two decades of experience, in their late forties and early fifties. There also find an acute shortage of youngsters with modern skills.

D. Programmes of SMGB

1. Majority of the customers are aware of the various programmes and schemes of SMGB for the promotion of agriculture, industry and service sectors at varying degrees. Regarding the awareness of the programmes, 37 per cent are well aware, 47 per cent are aware and the remaining 16 per cent are unaware of the programmes. Meanwhile, the officials are of the view that the customers are well aware of the bank’s programmes.

2. Regarding the amount of expenses incurred in connection with the loan, 48 per cent of the customers incurred less than one per cent, 36 per cent incurred between one and two per cent, and the remaining incurred more than 2 per
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cent of the loan amount. But, most of the officials pointed out that, it is less than one per cent.

3. There is a marked difference among customers on the number of pre-sanction visits they made to the bank for the loan. One to three visits served the purpose for 24 per cent customers. Four to six visits were necessary for 50 per cent customers, while in some extreme case, they paid more than ten visits. It is also found that there is no marked difference in the opinion between customers and officials.

4. Regarding the pre-sanction visits by the bank, a vast majority opined that the bank makes only one visit to the customer’s premises. Also, there find no difference in opinion between customers and officials in this regard.

5. The opinion of customers on the processing time required is highly divided. 27 per cent said that it is less than one week time, 25 per cent said that it is one to two weeks; another 29 per cent opined that it is two to three weeks and the remaining 19 per cent said that it is more than 4 weeks. While officials are of the view that, at branch level, less than one week is sufficient, at area level, one to two weeks time is needed, and at head quarters level, two to three weeks are needed.

6. Regarding the amount of loan, 77 per cent of the customers get the full amount they demanded, while for the remaining customers, 47 per cent get up to 76 per cent of the amount applied, 53 per cent customers get up to 85 per cent of the loan amount. Kozhikode district stands ahead in respect of sanctioning the full amount of loan. At the same time, 70 per cent of the officials stated that the customers get the full amount.

7. When the SMGB’s finance were not sufficient for the purpose, 36 per cent of the customers approached money lenders, 34 per cent approached private
financiers, 10 per cent approached friends and relatives and only a small portion (4%) went to other banks.

8. Majority of the customers utilize the loan amount to the purpose for which it has been taken while 12 per cent divert the loan to other purposes at varying degrees. The diversion is highest in Malappuram and the least in Waynad district. At the same time, 72 per cent of the officials opined that there is diversion of loan use. They also point out that, agricultural loans are the most diverted category followed by industry and service sector loans.

9. Repayment is regular in 86 per cent loan accounts as per customer’s opinion whereas the officials say that it is regular in 96 per cent accounts.

10. Regarding the reasons for default in repayments, both customers and officials acknowledge insufficient income as the prime reason, followed by failure of financed project, unexpected family expenses and uneasy installments.

11. On the quality of loan experience, 36 per cent of the customers faced some sort of hardships in the bank. Delay in processing the application due to shortage of staff is the most significant problem in the order of priority. Complicated procedure, difficulty to arrange security and low amount of loan are the other difficulties. The Officials of the bank also came out with the same observation.

E. Effects of Promotional Measures on the Socio-economic Status of Beneficiaries

1. The finance of SMGB has helped a majority of the customers (83%) to create full employment. The remaining 17 per cent could also create partial employment of less than 20 man days in a month. The Palakkad district stands first in self employment creation followed by Kozhikode and Waynad.
2. With regard to creating employment for others, 51 per cent of the customers could create one additional full employment (20 man days). The Kozhikode district stands first in this category.

3. For 20 per cent customers, their income has increased over 50 per cent. For 47 per cent, an increase between 30 and 50 per cent has been reported. While in the case of the next 33 per cent, the increase is less than 30 per cent.

4. In spite of an increase in employment and income of customers since availing the credit, the study can’t see a corresponding increase in their savings regarding the savings out of the income generated from SMGB finance, 34 per cent of the customers have reported a saving of varied size. The savings of majority of the customers (61%) are in the form of gold and precious metals whereas 31 per cent have their savings in the form of financial assets. The next 8 per cent has used it for the purchase of livestock.

5. Of the total customers, 35 per cent have a live debt to local money lenders. The Malappuram district stands first in this respect.

6. Regarding the involvement of customers in social life, 40 per cent are members in some sort of traders’ associations, 26 per cent are members in Kudumbashree and local bodies, 21 per cent are associated with recreation clubs and the next 13 per cent are members in Snehamaram and farmers’ club.

7. With regard to the considerations by the bank for the merit of the customers, purpose of the loan, repayment capacity, repayment history and value of collateral are in the order of importance.

8. Direct official visit and local enquiry followed by demanding of financial statements are the assessment methods, in the order of priority, used by the bank in 97 per cent of the loan cases.
9. Regarding the role played by SMGB in the socio-economic progress of individual customers and their region, 98 per cent of the customers and also officials responded affirmatively. But, 12 per cent of the customers in the Waynad district reported negatively as to the role of SMGB in their socio-economic progress.

F. Operational and Financial Performance of SMGB

1. The SMGB has grown 4.72 times during the last ten years in terms of total business with a CAGR of 19.06 per cent. The deposit has increased 5.44 times, advances 4.12 times, and average size of advances 2.27 times to reach Rs.38701. The ratio of NPA to advances has also improved from 2.7 per cent to 1.68 per cent. At the same time, the recovery rate has come down from 91.81 to 91.42 per cent. Also, the number of employees has come down from 1589 to 1555 with a CAGR of (-) 0.22 per cent.

2. During the last 10 year period of the study, the SMBG has issued on an average 88 per cent of the total advances to the priority sector. Of this, 21 per cent as term loans and 83.45 per cent as secured loans.

3. The profitability of SMGB is showing a declining trend during the period of the study. Majority of the ratios calculated to measure the profitability such as net interest margin ratio, interest spread, return on assets ratio and return on equity ratio are also falling off.

4. The staff productivity of SMGB is showing an increasing trend during the period. The income per employee has increased 1.14 times with a CAGR of 14.64 per cent. Profit per employee has also increased by 51 per cent with a CAGR of 5.17 per cent. Further, business per employee also registered an increase by 192 per cent with a CAGR of 19.31 per cent.

5. The productivity of SMGB has improved during the period. All cost based ratios such as intermediation cost ratio, cost to income ratio, ratio of wage bills
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to intermediation cost, ratio of wage bills to total expenses, ratio of wage bills to total income, cost of deposit, cost of assets, cost of borrowings and cost of funds have shown considerable improvement.

6. In spite of an increase in operating cost by 177 per cent, the operating cost to assets ratio of SMGB has come down from 3.59 to 1.77 per cent during the period of study. In the same way, cost to income ratio has also come down from 34.13 per cent to 24.64 per cent in the period.

7. The wage bill to intermediation cost ratio of SMGB has come down from 81.90 to 74.20 per cent, showing an improvement in the productivity of workers. Also, a fall of wage bill to total expenses from 31.90 to 18.62 per cent shows the improved labour productivity. Further, the ratio of wage bill to total income has also dipped from 26.28 to 17.23 per cent.

8. The cost of deposit of SMGB has decreased 9.20 per cent on an average, during the period. Also, the cost of borrowings has come down 12.85 per cent on an average and similar is the case of cost of funds.

9. Return on advances of SMGB, though has come down from 13.37 to 9.36 per cent, it is still comparable with the nationalised banks. But the return on investments has received a severe setback.

10. The CD ratio of SMGB has come down from 119 per cent to 95 per cent during the last ten years. The cash deposit ratio also has come down whereas the investment deposit ratio has gone up from 15.79 to 26.04 per cent during the period.

11. The ratio of gross NPA to gross advances (from 4.63% to 2.53%), gross NPA to total assets ratio (from 3.30% to 1.64%) and net NPA to net advance (from 2.70% to 1.68%) of SMGB have shown a considerable decrease during 2001-10.
12. The provisioning coverage ratio of SMGB has been stable during 2001-10. The capital adequacy ratio during 2007-08 to 2009-10 is also above the proposed target of RBI (8%) for RRBs in India.

6.2 Conclusion

South Malabar Gramin Bank has been striving to serve the people of north Kerala for the last thirty years. Majority of the farmers, small scale units, craftsmen, self employed, self help groups and all MGNREGS workers in the rural and semi urban areas of the northern districts such as Palakkad, Malappuram, Kozhikode and part of Waynad have direct relation with the bank. By credit linking the SHGs the bank has extended its financial support to the hitherto unbanked rural household women folk. But active presence of money lenders (both from outside and from within Kerala), considerable percentage of indebted customers and age structure of customer base, points to the fact that SMGB has some more miles to go before it seeks to serve other districts.

Though there are certain percentage of loan diversion, default, interest waiver, nonpayment and write off, the various programmes of SMGB for the promotion of agriculture, industry and service sector have been well appreciated by the people of north Kerala. The undiluted focus on priority sector advance also resulted in increased man days, income and savings of its customers. The recent emphasis on education loan has also been a success. While admitting a slow fall in profitability, the bank has been successful in attaining employees’ productivity and management efficiency. But the thin spread as a result of high cost of funds and administered interest rate coupled with loss of deposit business to high tech commercial banks have posed a challenge to SMGB.

As the bank is focusing on semi urban, urban and metro branches, it is highly desirable to have all facilities offered by other commercial banks like e banking, net banking and ATMs. ‘Rural banking’ unlike many other village
products and forest produce that find hot markets, may not necessarily find takers in the metros.

It is observed that a staggering 97 per cent of the customers of SMGB depended on the bank exclusively for loans. So the study cannot reasonably conclude that the deposits presently available with the SMGB came from the remaining 3 percent customers evenly. That leads to the conclusion that majority of the deposits of SMGB possibly came from a few bulk sources. If that is true, the management of the bank must thoroughly review the entire deposit mobilization strategies so as to bring the rural and semi urban small deposits in the bank. Moreover, as these customers are very sensitive to even the short term financial health of the bank, they will be always alert to the continuous fall or flattening of the profitability or liquidity ratios of the bank. So unless such crucial ratios have kept stable, a run on SMGB is imminent.

6.3 Suggestions

Based on the findings of the study and conclusion, the following suggestions are advanced to improve the role of South Malabar Gramin Bank in the development of northern districts of Kerala.

1. Formulate Suitable Schemes for Youngsters

The study observes that most of the customers of SMBG (80%) are above 40 years of age and depend the bank for loan only using the title deed of their property as collateral. There is an acute dearth of youngsters in the clientele base.

To attract the rural youngsters, who are mostly engaged in construction related semi skilled jobs, some loan schemes related to their job demands must be formulated. Jobs like carpentry, plumbing, floor paving, electrical wiring, onsite welding, concrete demolition, grass cutting etc., are done with the help of portable power tools costing Rs. 1000 to 10000 and in some exceptional cases, up to
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25000. As they neither own property to offer as collateral, nor do they have an income that can be proved, SMGB is not entertaining this sort of needs of youngsters. So, majority of the workers usually buy them with the finance from the money lenders or hire the instruments at a high rate of rent. So the study recommends formulating a scheme to accommodate these working youngsters.

2. Attract New Customers

There are only a few (4.3%) customers with less than 5 years of transactional relation with the bank, which means the inflow of new customers is rather stopped. Further, it is also found that customers who are permanently employed in private, government or co-operative sector is 4.5 per cent, which too is for loan purpose. As most of the offices are paying their salary through banks with net banking facility, presently SMGB is not suitable to the aforesaid employees. As the bank has completed the implementation the core banking, it is high time they introduced e-banking and net-banking with one-to-one transfer facility and rural ATMs.

3. Formulate Gulf Oriented Schemes.

It is found that SMGB has no loan scheme to finance NRIs and those going abroad seeking employment and also for NRIs. Both these groups are abundantly present in the study area. Presently many of the KCC loans are diverted to these and similar purposes. If there is a separate scheme for this type of customers, it will reduce diversion and bring more interest income and finally help to gather NRE deposits, for which the bank already has permission.

4. Focus on Deposit Mobilisation

Vast majority of the customers (96.7%) depend SMGB exclusively for loan needs. Customers attracted towards deposit products are meager. Being a bank with equity participation of the state government, a link with government treasuries will help to attract the pension commutation and DCRG (Death Cum
Retirement Gratuity) amount of pensioners to the bank. There should be result oriented campaign to attract deposit accounts offering safety and return. There must be vigilant to hire strong buildings and trusted strong rooms. To collect daily rural household savings, the service of business correspondents and facilitators must be extended to all branches.

5. Reduce the Number of Pre-sanction Visits by Customers

More than one fourth on the customers had to visit the bank 7 to 10 times before the sanction of the loan. To reduce the number of visits to the minimum, a booklet in vernacular detailing the loan procedure, requirements, assessment criterion, and usual processing period etc., may be made ready and handed over free of cost to the customer during the first visit itself.

6. Promote Male Self Help Groups

In spite of the snehagramam or rural debt swap scheme, to ward off the money lenders, there are 36 per cent customers who are indebted simultaneously to money lenders too. To avoid such situation male self help groups must be encouraged so as to avail finance from the bank without the tangible collateral and the repayment is more likely than snehagramam project.

7. Revamp Loan Schemes

To avoid the rampant loan use diversion, which means a disparity between needs of customers and schemes of SMGB, the bank should redesign the loan schemes. Agriculture loans are the most diverted category, because of the low interest rate and interest waiver, write off and subsidy hopes. So a secured, non-agriculture, general purpose loan scheme with low interest rate may be devised.

8. Speed-up Processing of Loan Applications

Delay in processing of applications is one of the main difficulties faced by customers in SMGB. Lack of staff, absenteeism and lack of authority at branch
level are the reasons for the delay. To address this problem, apart from recruiting fresh personnel and devolution of more authority to lower levels, a time tag must be attached to each loan schemes.

9. Improve Profitability

As all profitability ratios have fallen, an all out effort should be made to increase business and to reduce cost. To collect rural savings, especially in the Savings Bank account interest deregulated environment, engage in a local interest competition, which is not practical for large commercial banks. This will help to overcome the deterioration in the ratio of demand and savings bank deposit to total deposits. Thus both cost of funds and business can be improved.

10. Encourage Term Loans

It is found that the ratio of term loans to total loans is very low compared to nationalised banks, which leads to high operating cost to the bank. To come out of this, term loans have to be encouraged. Partnering in the housing programme of local self governments will be a possible and comparatively safer opportunity as the former would guarantee the debt.

11. Recruit Personnel

Last but not the least, it is found that huge majority of the staff of SMGB is above the age of 45 years and one half of them are above 55 years. By the year 2015, sixty per cent of the present staff will have retired. Unless a mass recruitment drive is undertaken, the bank will find it hard to handover the tacit part of the banking knowledge to the new comers.