

## 9. BANKING

The principal objectives of monetary policies are fostering economic growth, anchoring the expectations of rising price level, promoting credit penetration and improving balance of payment difficulties. The Reserve Bank of India's Annual Monetary Policy for the year 2009-10 was set in the context of a deep global economic slump and financial market turmoil. This had resulted in a globally unprecedented coordinated policy. Like all the emerging economies, India also was affected by the crisis much more than the expected levels. Though GDP growth had moderated reflecting lower industrial production, negative exports, deceleration in service activities, dented corporate margins and diminished business confidence, there had been some favourable factors like well functioning financial markets, robust rural demand, lower headline inflation and comfortable foreign exchange reserves which enabled the buffering from the worst impact of the crisis.

Due to these prevailing macro economic and monetary fundamentals, the Reserve Bank had moulded the monetary policy for the year 2009-10 (easy money policy):

- Reduced repo rate (Repo is the rate at which banks borrow from Reserve Bank of India) by 25 basis points from 5.0 to 4.75 per cent with immediate effect;
- Reduced reverse repo rate (Reverse Repo is the rate at which banks park their surplus funds with RBI) by 25 basis points from 3.5 to 3.25 percent.
- Kept the Cash Reserve Ratio (CRR) unchanged at 5.0 per cent of net demand and time liabilities.
- All these had aimed at providing comfortable liquidity; ensuring comfortable dollar liquidity and maintaining a continued credit flow to productive sectors. These measures also ensured that the Indian financial markets would continue to function in an orderly manner.
- Cash Reserve Ratio (CRR) increased by 25 basis points to 6.00 per cent.

The Annual Monetary Policy of 2010-11 witnessed an increase in its policy rates. Some of the features of the policy were increase in the Repo rate and Reverse repo rate by 25 basis points to 5.25 and 3.75 per cent respectively.

An increase in these policy rates (tight money policy) implied that borrowing and lending costs for banks would increase and lead to an overall increase in the interest rates for credit and deposit. The higher interest rates would in turn lead to lower demand and thereby reduce inflation.

### 9.1. Impact of Policy Rate Hike:

When banks raise demand and time deposit, they are required to keep a certain percent with RBI as Cash Reserve Ratio (CRR). An increase in CRR implies that the banks have to keep a higher proportion of fresh deposits with RBI, which would lead to lower liquidity in the system. With these monetary policies of the RBI from the year 2009-10 and 2010-11 a brief account of the performance of the banking sector is presented in this section.

The banking system in India is dominated by Scheduled Commercial Banks (SCB's). As on March 2009, SCBs controlled most of the assets and the rest being controlled by a large number of small co-operative credit institutions with a very large geographical reach.

- Among the SCB's, the share of public sector banks accounted for 71.9 percent of the assets and the rest was held by foreign banks and private sector banks.
- Growth in savings deposit is expected to increase and a steady increase in the number of savings account is also expected as banks reach out to new markets.

There is a paradigm shift from class banking to mass banking. Banking is graduating beyond traditional boundaries and entering new areas such as wealth management, private banking, door-step banking, electronic banking, credit cards, investment advisory services etc. Alternate e-delivery channels are becoming popular with the Indian customers.

## **9.2. Financial Inclusion:**

What is financial inclusion? Inclusion generally denotes delivery of financial services at an affordable cost to the disadvantaged and vulnerable sections of the society. Not just access to a bank account and hence to deposit facilities, access to timely and adequate credit should also come under financial inclusion. Financial inclusion in the broadest sense, therefore is to make available a comprehensive range of financial services to those who need them. It is customary to concentrate on supply side factors for propogating financial inclusion. Opening of branches of commercial banks in rural areas is one of them. Important factors determining the financial inclusion are the per capita GDP, income inequality, adult literacy, urbanization, physical and electronic connectivity and information availability. Out reach activities need to be orchestrated to ensure financial inclusions.

## **9.3. Banking in Tamil Nadu:**

Some of the highlights of Banking in Tamil Nadu as of March 2011 are presented below:

- Credit Deposit Ratio as of March 2011 reached 114.11 per cent at the State level.
- Deposits increased by 20.43 per cent in the State during the 12 month period ending March 2011.
- Aggregate credit outstanding increased by 21.99 per cent.
- The share of priority sector advances to total credit was 47.49 per cent as against the national norm of 18 per cent.
- The share of advances to weaker sections was at 11.84 per cent as against the national norm of 10 per cent.

- Under the Government-sponsored Schemes, the banks in Tamil Nadu are lending out money. Banks distributed Rs.507.97 crores in the current year as against the national target of Rs.243.94 crores.
- The credit - subsidy ratio of economic activity attained the level of 2.95.
- Under the Swarna Jayanthi Sahari Rozgar Yojana (SJSRY), subsidy utilization had been upto the level of 70.50 per cent.
- Under the Annual Credit Plan for 2010-11, banks in Tamil Nadu had disbursed Rs.44926.52 crores.
- Of the total quantum of credit of ₹ 52224 crores, credit flow to the agriculture sector accounted for a major share of 60 percent (Rs.31,404 crores), followed by non-farm sector 20 per cent and other priority sector 19.87 percent .

#### 9.4. Banking profile – Tamil Nadu

##### *Banking Development:*

The State had a wider net work of commercial bank branches including Nationalised banks, Private Sectors and Foreign banks. The average per branch population works out to 11430. The proportion of increase in 2010-11 over 2009-10 deposits stood at 20 per cent for Tamil Nadu and 17.92 per cent for All India. The increase in bank credit was 21.99 per cent in Tamil Nadu and 21.85 per cent in All India in the above reference period.

**Table -9.1: Banking Development – A Comparison**

Sl. No.	Indicators	Unit	2009-10		2010-11		% increase over the previous year	
			Tamil Nadu	All-India	Tamil Nadu	All-India	Tamil Nadu	All-India
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	Bank Offices	Number	6214	83997	6601	89110	6.2	6.0
2.	Population served per bank office	Number	11430	12247	-	-	-	-
3.	Aggregate bank deposits	₹ in Crores	285336	4601926	343635	5426510	20.43	17.92
4.	Ratio of aggregate deposit to GSDP		0.60:1	0.75:1	0.63:1	0.74:1		
4.	Gross bank credit	₹ in Crores	321418	3345619	392128	4076868	21.99	21.85
5.	Credit Deposit ratio	Percentage	112.65	72.70	114.11	75.13	-	-

*Source: Quarterly Statistics on Deposit and Credit of Scheduled Commercial Bank, March 2010 and March 2011.*

Over the two years, the number of bank offices increased from 6214 in 2009-10 to 6601 in 2010-11 in Tamil Nadu. At the national level, 5113 new Bank branches were opened in 2010-11, of which, 387 were opened in Tamil Nadu (7.6%). The deposits had also shown an increase over the years.

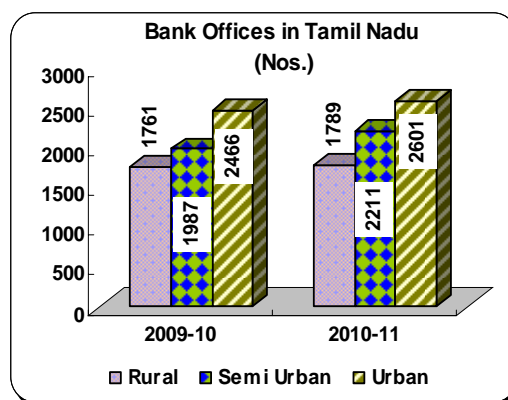
**Table – 9.2: Number of Commercial Banks in Tamil Nadu**

Sl. No.	Bank Group	2009-10		2010-11	
		New branches	Bank branches	New branches	Bank branches
1.	State Bank of India and its associates	74	945	41	986
2.	Nationalized banks	163	3514	176	3690
3.	Regional Rural banks	15	286	12	298
4.	Foreign banks	-	28	2	30
5.	Other Scheduled commercial banks	121	1441	156	1597
	<b>Total</b>	<b>373</b>	<b>6214</b>	<b>387</b>	<b>6601</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Commercial Bank, March 2010 and March 2011.

**9.4.1. Distribution of Bank offices:**

The number of bank offices both in Tamil Nadu and All India showed a steady increase over the years, 2009-10 and 2010-11. In Tamil Nadu, it is noticed that in the urban and semi urban regions, more numbers of branches were opened and the total number of urban branches had increased from 2466 in 2009-10 to 2601 in 2010-11 showing an increase of 5.5 per cent. In semi-urban regions, the increase was higher at 11.3 per cent.



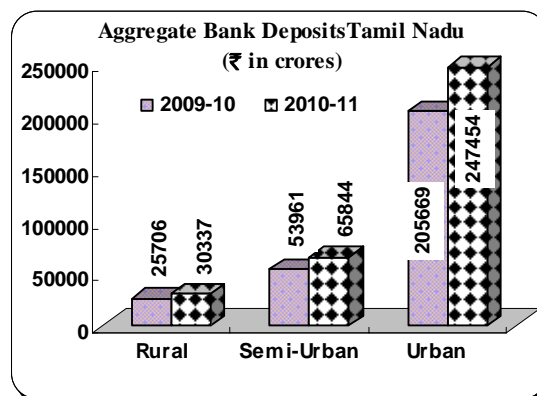
**Table-9.3: Number of Bank offices**

Sl. No.	Region	2009-10		2010-11	
		Tamil Nadu	All India	Tamil Nadu	All India
1.	Rural	1761	32289	1789	33325
2.	Semi urban	1987	20358	2211	22419
3.	Urban / Metropolitan	2466	31350	2601	33366
	<b>Total</b>	<b>6214</b>	<b>83997</b>	<b>6601</b>	<b>89110</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Commercial Bank, March 2010 and March 2011.

**9.4.2. Aggregate Bank Deposits as on 2009-10 and 2010-11:**

The quantum of Aggregate Bank deposits had also shown a steady increase over the years 2009-10 and 2010-11, indicating a positive trend. The increase was noticed in all the categories of banks.



**Table 9.4: Aggregate Bank Deposits**

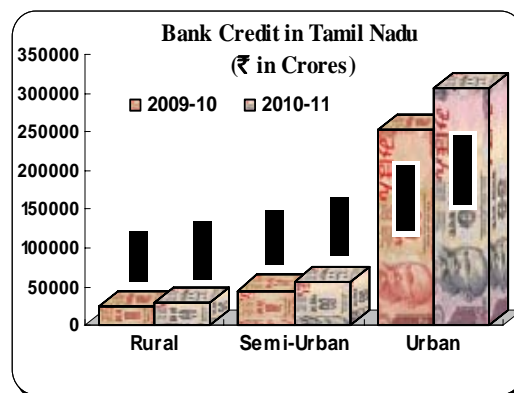
(₹ in crores)

Sl. No.	Region	2009-10				2010-11			
		Tamil Nadu	%	All India	%	Tamil Nadu	%	All India	%
1.	Rural	25706	9.0	423502	9.2	30337	8.8	496857	9.2
2.	Semi urban	53961	18.9	618207	13.4	65844	19.2	721202	13.3
3.	Urban/ Metropolitan	205669	72.1	3560217	77.4	247454	72.0	4208451	77.5
	<b>Total</b>	<b>285336</b>	<b>100.0</b>	<b>4601926</b>	<b>100.0</b>	<b>343635</b>	<b>100.0</b>	<b>5426510</b>	<b>100.0</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Commercial Bank, March 2010 and March 2011.

**9.4.3. Aggregate Bank Credit as on 2009-10 and 2010-11:**

The quantum of aggregate bank credit had also exhibited a steady increase as on 2010-11 over 2009-10. The banks in the semi urban regions have shown higher quantum of credit to companies as compared to banks in other regions. The performance of Tamil Nadu as compared to All India is portrayed in the table below.



**Table 9.5: Aggregate Bank Credit as on 2009-10 and 2010-11**

(₹ in crores)

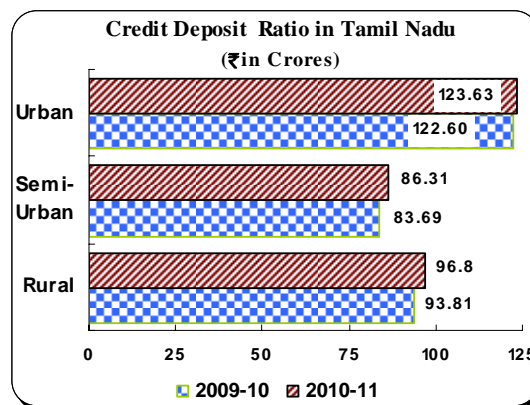
Sl. No.	Region	2009-10				2010-11			
		Tamil Nadu	%	All India	%	Tamil Nadu	%	All India	%
1.	Rural	24114	7.5	249804	7.5	29365	7.5	294104	7.1
2.	Semi urban	45162	14.1	320372	9.6	56828	14.5	383072	9.4
3.	Urban/ Metropolitan	252142	78.4	2775443	82.9	305935	78.0	3399692	83.4
	<b>Total</b>	<b>321418</b>	<b>100.0</b>	<b>3345619</b>	<b>100.0</b>	<b>392128</b>	<b>100.0</b>	<b>4076868</b>	<b>100.0</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Commercial Bank, March 2010 and March 2011.

**9.4.4. Credit Deposit Ratio – T.N.**

**Banks:**

The process of capital formation involves three essential stages; (i) an increase in the volume of real savings, so that the resources can be released for investment purposes; (ii) the channeling of savings through a finance and credit mechanism so that invertable fund can be collected from a wide range of different sources and claimed by invertors; and (iii) the act of investment itself by which resources are used for increasing the capital stock.



The Credit Deposit Ratio of Tamil Nadu banks highlights that there had been a gradual increase in the overall Credit Deposit Ratio from 112.65 per cent in 2009-10 to 114.11 per cent in 2010-11. The credit deposit ratio is higher in Urban / Metropolitan regions. The details are presented in the following table.

**Table – 9.6: Credit - Deposit Ratio – T.N. Banks**

(₹ in Crores)

Sl. No.	Region	2009-10			2010-11		
		Deposit	Credit	Credit Deposit ratio	Deposit	Credit	Credit Deposit ratio
1.	Rural	25706	24114	93.81	30337	29365	96.80
2.	Semi urban	53961	45162	83.69	65844	56828	86.31
3.	Urban / Metropolitan	205669	252142	122.60	247454	305935	123.63
	<b>Total</b>	<b>285336</b>	<b>321418</b>	<b>112.65</b>	<b>343635</b>	<b>392128</b>	<b>114.11</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Commercial Bank, March 2010 and March 2011.

### 9.5. Annual Credit Plan:

The sector-wise performance of banking as per the Annual Credit Plan for the two years had been remarkable with every sector showing a positive achievement over the allotted credit. The agriculture sector displayed an increase in 2010-11 over 2009-10, though services and industries exhibited a small decline. The overall achievement had gone up from 2009-10 to 2010-11.

**Table - 9.7: Sector-wise performance of Banking System under Annual Credit Plan**

(₹ in crores)

Sector	2009-10		2010-11	
	Allocation	Achievement	Allocation	Achievement
Agriculture	19826.77	21007.94 (105.95)	22531.86	25054.23 (111.19)
Industries	8750.80	8260.98 (94.40)	10008.23	9437.08 (94.29)
Services	7734.04	8590.40 (111.07)	9560.80	10435.21 (109.15)
<b>Total</b>	<b>36311.61</b>	<b>37859.32 (104.26)</b>	<b>42100.89</b>	<b>44926.52 (106.71)</b>

Source: State Level Bankers Committee Report 2009-10.

### 9.6. Small Savings in Tamil Nadu:

Thrift and parsimony among the people is indispensable for promoting savings. The Small Savings Department in Tamil Nadu played a major role in helping the people of Tamil Nadu to get into the habit of saving at least a small amount of what they earn. The gross collections, increased over the three year period. Though net collection showed a negative picture in 2008-09, the situation had improved in 2009-10.

Year	Gross collections	Net collections
2008-09	8486.64	-1216.73
2009-10	12113.39	1539.39
2010-11	13414.56	516.32

Source: Director of Small Savings, Chennai – 2.

### 9.7. Tamil Nadu State Apex Co-operative Bank (TNSACB):

The Tamil Nadu State Apex Co-operative Bank (TNSACB) plays an important role in rural banking in Tamil Nadu. The TNSACB is a federation of the District Central Co-operative Banks and is raising resources from public deposit,

refinance from NABARD, loans from National Co-operative Development Corporation and channelising them through the District Central Co-operative Banks for both agricultural and non-agricultural purposes. A comparison of financial status of the TNSACB is tabulated below:

Sl.No.		2009-10	2010-11
1.	No. of Branches	46	46
2.	Share capital	61.07	95.82
3.	Reserves	582.44	607.03
4.	Deposit held	5146.00	5435.84
5.	Borrowings	896.21	2177.77
6.	Loans and Advance issued	5479.74	8117.93
7.	Loans and Advance outstanding	4599.41	6798.78
8.	Works capital	7691.96	9458.82
9.	Profits (%)	18.80	40.69

*Source: TNSACB data.*

Though the number of Co-operative banks remained the same in 2009-10 and 2010-11, the quantum of deposits, the paid up share capital, the loans and advances had gone up. All these had helped to hike the profit from 18.80 per cent in 2009-10 to 40.69 per cent in the year 2010-11.

### 9.8. District Central Co-operative Banks (DCCBs):

The total number of District Central Co-operative Banks in Tamil Nadu was 23 in both the years 2010 and 2011, whereas the number of branches of the DCCB's increased from 725 to 730. The positive trend highlighted in the performance of the District Central Co-operative Bank was an increase in the quantum of short term agricultural loans which had increased from ₹11,706.02 crores to ₹14,703.27 crores. The deposits had also shown a hike from ₹11,984.79 crores to ₹13,332.48 crores. The DCCBs are the back bone of the rural economy and their good performance has helped in improving the economy of Tamil Nadu through extension of credit to the needy farmers.

**Table -9.10: District Central Co-operative Banks in Tamil Nadu**

Sl.No.	Particulars	2009-10	2010-11
1.	Number of District Central Co-operative Banks	23	23
2.	Total number of branches	725	730
3.	Total Share Capital	710.42	779.48
4.	Total Reserves	1597.74	1968.86
5.	Total Deposits	11984.79	13332.48
6.	Total Borrowing	2602.13	4513.91
7.	Advances outstanding	14688.79	17984.43
8.	Short term Agriculture loans issued	11706.02	14703.27
9.	Medium term Agriculture loans issued	725.70	592.53

*Source: TNSACB data.*

### 9.9. Self Help Group (SHG) Movement:

SHG is an effective instrument for special and economic empowerment. It makes on all-out effort on incidence of poverty. a tool for social mobilization, group dynamism and promotion of economically viable enterprises. Empowerment is a multidimensional concept. It means moving from a position of an enforced powerlessness to one of productive power. Empowerment refers to the expansion in people's ability to make strategic life choices in a context where this ability was

previously denied to them. Three dimensions of empowerment are resources (condition) agency (process) and achievement (outcome).

### **9.9.1. Evolution of SHGs Bank Linkage Programme:**

The SHG bank linkage programme is the flagship microfinance intervention mechanism of NABARD. The launching of its pilot phase in February 1992 could be considered as a land mark development in the annals of banking with the poor. The informal thrift and credit groups of the rural poor came to be recognized as bank clients under the pilot phase. The pilot phase was followed by setting up of a working group on NGOs and SHGs by the Reserve Bank of India in 1994, which came out with wide-ranging recommendations on internalization of the SHG concept as a potential intervention tool in the strategy of banking with the poor.

The conceptual thinking behind the SHG philosophy and the bank linkage may be summarized as under:

- Self help supplemented with mutual help can be a powerful vehicle for the poor peoples' efforts in achieving upward socio economic transition.
- Participative financial services' management is more efficient and responsive.
- The poor can save and are bankable.
- The mismatch between the expectations of the poor and capabilities of the formal banking system needs to be minimized.
- The poor need not only credit support but also savings and other financial services.
- Small affinity groups of the poor, with initial outside support, can effectively manage and supervise micro credit among their members.
- Collective wisdom of the group and peer pressure are valuable collateral substitutes.

### **9.9.2. SHG network:**

About 85.70 lakh women have been mobilized into 5.56 lakh SHGs under Mahalir Thittam. The SHGs have so far availed a credit of ₹15,633.83 crores from various banks and have a total savings of ₹3,374.60 crores.

➤ No. of SHGs	5.56 lakhs
➤ No. of SHG members	85.70 lakhs
➤ No. of Rural SHGs	3.72 lakhs
➤ No. of members in rural SHGs	57.37 lakhs
➤ No. of Urban SHGs	1.84 lakhs
➤ No. of members in Urban SHGs	28.33 lakhs
➤ Total Savings	₹ 3,374. 60 crores
➤ No. of Credit Linked SHGs	4.85 lakhs
➤ Total Amount Credit Linked	₹ 15633.83 crores

### **9.10. Role of NABARD:**

The National Bank for Agriculture and Rural Development (NABARD) works with a mission to promote sustainable and equitable development of agriculture and



rural prospects through effective credit support related services, institutional development and other innovative initiatives.

NABARD has been preparing Potential linked Credit Plan (PCP) on an annual basis for every district in the State. The sector wise available natural resources, physical infrastructure, plans of the State Government, infrastructure gaps and human resources in the district are the basis for working out the credit absorption potential in the district. These details become very useful for the planning process of the State so that the desired credit flow to the private sector, especially the agricultural sector takes place in the State for overall development.

Since 1995-96, Rural Infrastructure Development Fund (RIDF) was instituted within the NABARD for financing the on going rural infrastructure projects being implemented by the State. Tamil Nadu initially availed of RIDF assistance for the development of roads, bridges and irrigation infrastructure. The PCP of NABARD estimated the potential of bank credit for Tamil Nadu for 2009-10 as ₹42685.54 Crore. The share of crop loan was ₹14573.08 Crore (34.14%), Term loan was ₹4562.67 Crore (10.69%) Non Farm Sector (NFS) was ₹11169.57 Crore (26.17%) Other Priority Sector (OPS) was ₹11574.59 Crore (27.11%). The potential was expected to increase by 17.1 per cent over the PCP estimate for the year 2008-09. Credit support by NABARD in Tamil Nadu had continuously been provided to refinance support to co-operatives and Regional Rural Banks for seasonal agricultural operations at concessional rates of 3.5 per cent for co-operatives and 4.5 per cent for RRB's. NABARD also disburses finance to the State to supplement the efforts of banks to extend term loan for agriculture, allied activities, non farm sector (NFS), SHG's etc. Micro credit programme in the country had been initiated by the NABARD and it is continuing to upscale the SHG programme in increasing the income level of members.

Banking in Tamil Nadu is moving forward on a positive trend owing to all the monetary measures adopted by the banks, as suggested by the RBI on the economic front. The Banking policies are being tailored to the needs of the Country and the States in spite of the global financial crisis.

### **9.11. Summing-up:**

Indian banks – both public and private are financially sound, well capitalized and well regulated. Under core banking solutions, a number of services are being provided such as anywhere banking, everywhere access and quick transfer of funds in an efficient manner and at reasonable cost. The credit requirements of priority sector lending are well taken care of. Financial inclusion is a key determinant of sustainable and inclusive growth. It provides an avenue for the poor to bring their saving into the organized financial system besides weaning them away from the clutches of the exploitative and predatory money lenders. Thus, the limited reaches of financial services among the poor and vulnerable sections of society can be overcome.