

## 8. BANKING

The Indian banking sector has registered a radical transformation in its operations. It has entered into the new era of technology-enabled and customer-centric banking. The emerging banking scenario is highly competitive, posing challenges in areas like technology, operation and people front. Technology has become a strategic and integral part of future banking and customer services provided through multiple delivery channels such as ATMs, internet, mobile phones, etc.

The Annual Policy Statement of RBI- 2007-08 emphasised that the stance of Monetary Policy for 2007-08 would depend on macro economic prospects and developments in the global scenario. The overall stance of monetary policy was to ensure a monetary and interest rate environment that would enable continuation of the growth momentum consistent with price stability; to focus on credit quality and financial market conditions to support export and investment demand in the economy for maintaining macro-economic stability, particularly, financial stability; and to respond swiftly to evolving global developments. On a review of macro-economic developments and overall monetary conditions, as on March 2008, the RBI increased the reverse repo rate and the repo rate by 25 basis points each to 5.75 percent and 6.25 percent respectively.

In its 2007-08 policy statement, the RBI mentioned that the overall stance of Monetary Policy for 2007-08 reinforced the emphasis on price stability and well anchored inflation expectations so as to enable continuation of the growth momentum. The monetary policy would continue to re-emphasise credit quality and orderly conditions in financial markets for securing macro-economic and financial stability while simultaneously pursuing greater credit penetration and financial inclusion. The stance of monetary policy would be in such a way to respond swiftly with all possible measures as appropriate to the evolving global and domestic situation impinging on inflation expectations and the growth momentum.

The crux of the RBI's Annual Policy Statement for the year 2007-08 is outlined below.

### Box-1

#### Annual Policy Statement for the Year 2007-08

##### A. Annual Policy Statement for the Year 2007-08

##### Annual Policy Statement at a glance

- Reverse repo rate and repo rate kept unchanged at 6 per cent and 7.75 per cent, respectively.
- Cash Reserve Ratio (CRR) hiked to 6.50 per cent earlier with effect from the fortnight beginning April 28, 2007, prevailing from 6.25 per cent.
- Ceiling interest rate on NR(E)RA deposits reduced by two basis points to LIBOR/SWAP rates.
- Ceiling interest rate on FONR(B) deposits reduced by 50 basis points to LIBOR minus 75 points.
- Average cut-off yield on 182 day Treasury Bills to be used as a bench mark rate for floating rate bonds.
- Overseas investment limit (total financial commitments) for Indian companies enhanced to 300 per cent of their net worth.

(contd...)

(Contd...Box-1)

- Listed Indian companies limit for portfolio investment abroad in listed overseas companies enhanced to 35 per cent of net worth.
- Aggregate ceiling on overseas investment by mutual funds enhanced to US\$ 4 billion from US\$ 3 billion .
- Prepayment of external commercial borrowings (ECBs) without prior RBI approval increased to US\$ 400 million.
- Limit for individuals for any permitted current or capital account transaction increased from US\$ 50,000 to US\$ 1,00,000 per financial year in the liberalized remittance scheme.
- Risk weight on residential housing loans to individuals for loans up to Rs.20 lakh reduced to 50 per cent as a temporary measure.
- Ceiling rate of interest payable by NBFCs (other than RNBCs) on deposits raised by 150 basis points.

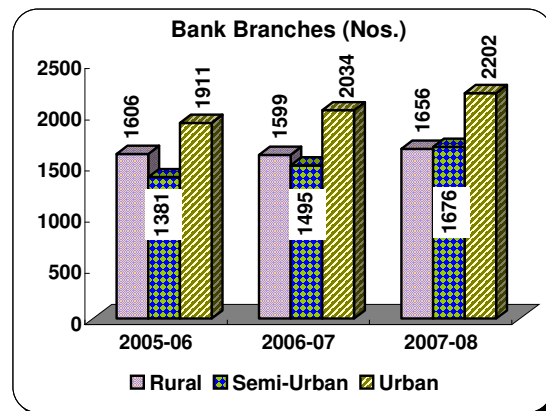
#### Mid-term review

- CRR increased by 50 basis points to 7.5 per cent effective fortnight beginning November 10, 2007.
- Covering of 'Short-sate' and "When issued" transactions to be permitted outside the Negotiated Dealing System-Order Matching (NDS-OM) system.
- Reinstatement of the eligible limits under the past performance route for hedging facility to be permitted.
- Oil companies to be permitted to hedge foreign exchange exposure by using overseas over-the-counter (OTC) / exchange traded derivatives up to a maximum of one year forward.
- Importers and exporters having foreign currency exposures to be allowed to write covered call and put options in both foreign currency/rupee and cross currency and received premia.

Source: Economic Survey 2007-08.

### Banking Network in Tamil Nadu:

At the National level, Tamil Nadu is one of the prominent States in the financial services sector. The State stands among the top ten in respect of several parameters of the banking services. With proper facilitation and support initiatives from the State Government, Tamil Nadu can achieve further growth in this sector. Some of the statistics that indicate the position of Tamil Nadu vis-à-vis other States in banking status are:



- Tamil Nadu has the highest credit-deposit ratio among all the States;
- In terms of number of bank offices of Scheduled Commercial Banks (SCBs), Tamil Nadu ranks fourth in the country, accounting for 7.2 per cent of the total number of bank branches in the country.

In Tamil Nadu, there has been a tremendous increase in the network of bank branches over a period of time. The number of banks has increased from 4898 in 2005-06 to 5128 in 2006-07, registering an annual increase of five percent. During 2007-08 the number increased to 5534. The proportion of these branches in terms of their location constituted 30 per cent in rural areas, 30 per cent in semi-urban and 40 per cent in urban areas.

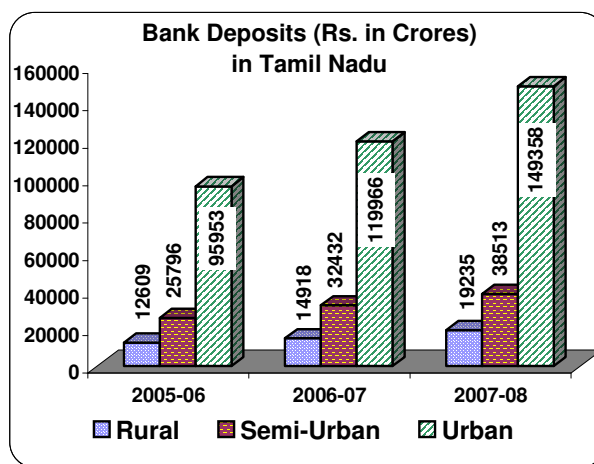
**Table-1: Number of Bank Branches**

Area	2005-06		2006-07		2007-08	
	Tamil Nadu	All - India	Tamil Nadu	All - India	Tamil Nadu	All - India
Rural	1606	30590	1599	30409	1656	30955
Semi urban	1381	15362	1495	16332	1676	17771
Urban	1911	23152	2034	24756	2202	27277
<b>Total</b>	<b>4898</b>	<b>69104</b>	<b>5128</b>	<b>71497</b>	<b>5534</b>	<b>76003</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Banks, RBI, June 2007-2008.

### Deposit Mobilisation:

The aggregate deposit of the SCBs in the State increased to Rs.167316 crores during 2006-07 from Rs.134358 crores in 2005-06 registering an annual increase of 25 per cent. The momentum in bank deposits continued in 2007-08 also and reached the level of Rs.207106 crores, registering an annual increase of 24 per cent. This accounts for 6.23 per cent of the all India aggregate deposits. This increase in deposit accumulation is due to expansion in bank branches, growth in savings deposits, speedy circulation of money and increase in GSDP.



**Table-2: Bank Deposits**

(Rs. in Crores)

Area	2005-06		2006-07		2007-08	
	Tamil Nadu	All India	Tamil Nadu	All - India	Tamil Nadu	All - India
Rural	12609	227902	14918	254039	19235	307681
Semi urban	25796	307768	32432	366130	38513	436893
Urban	95953	1636406	119966	2063348	149358	2529424
<b>Total</b>	<b>134358</b>	<b>2172076</b>	<b>167316</b>	<b>2683517</b>	<b>207106</b>	<b>3273998</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Banks, RBI, June 2007-2008.

## Deposit per Bank Branch:

The remarkable improvement in deposit mobilisation is reflected in the impressive per bank branch deposits in 2006-07. It has increased to Rs.32.63 crores in 2006-07 from Rs.27.43 crores in 2005-06 at an annual incremental growth of 18.97 per cent. The per bank deposit of Rs.37.42 crores in 2007-08 showed an annual incremental growth of 14.68 per cent.

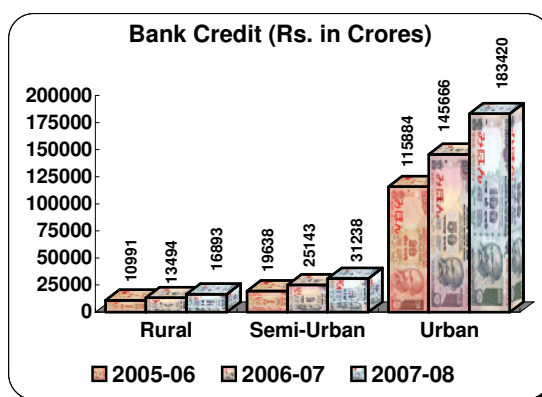
**Table-3: Deposit Per Bank Branch** (Rs. crores)

Area	2005-06		2006-07		2007-08	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	7.85	7.45	9.33	8.35	11.62	9.94
Semi urban	18.68	20.03	21.69	22.42	22.97	24.58
Urban	50.21	70.68	58.98	83.34	67.83	92.73
<b>Total</b>	<b>27.43</b>	<b>31.43</b>	<b>32.63</b>	<b>37.53</b>	<b>37.42</b>	<b>43.08</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Banks, RBI, June 2007-2008.

## Credit Disbursement:

The total quantum of bank credit had increased from Rs.146514 crores in 2005-06 to Rs.184303 crores in 2006-07, with an annual increase of 25.79 per cent. During 2007-08 it moved up to Rs.231551 crores accounting for 9.48 per cent of the total credit disbursed at the national level.



**Table4: Bank Credit** (Rs. in crores)

Area	2005-06		2006-07		2007-08	
	Tamil Nadu	All-India	Tamil Nadu	All-India	Tamil Nadu	All-India
Rural	10991	129944	13494	154472	16893	184400
Semi urban	19638	154251	25143	189279	31238	230045
Urban	115884	1271741	145666	1582948	183420	2025607
<b>Total</b>	<b>146514</b>	<b>1555935</b>	<b>184303</b>	<b>1926699</b>	<b>231551</b>	<b>2440052</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Banks, RBI, June 2007-2008.

## Credit Disbursal Per bank Branch:

Due to the significant increase in the advances made by the banks during the period 2006-07, and 2007-08, the credit per bank branch also expanded from Rs.29.92 crores in 2005-06 to Rs.35.94 crores, in 2006-07 and reached Rs.41.80 crores in 2007-08.

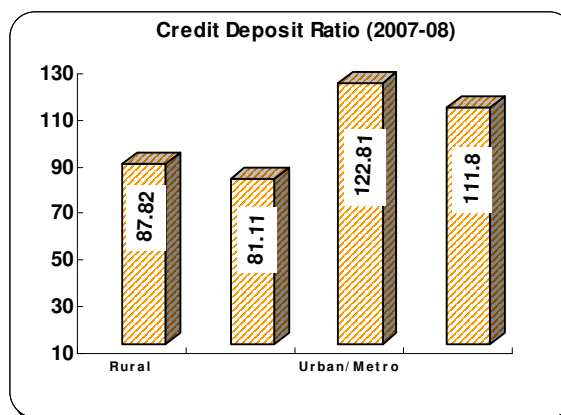
**Table-5: Credit Per Bank Branch** (Rs. in crores)

Area	2005-06		2006-07		2007-08	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	6.84	4.25	8.44	5.08	10.20	5.96
Semi urban	14.22	10.04	16.82	11.59	18.63	12.95
Urban	60.64	54.93	71.62	63.94	83.29	74.26
<b>Total</b>	<b>29.92</b>	<b>22.52</b>	<b>35.94</b>	<b>26.95</b>	<b>41.80</b>	<b>32.10</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Banks, RBI, June 2007-2008.

## Credit-Deposit Ratio:

Tamil Nadu is one of the States which has the highest credit-deposit ratio of over 100 percent. This highlights the strength of the banking structure in the State in the disbursal of credit to the public. The credit - deposit ratio in the State stands at 111.8 per cent in March'2008.



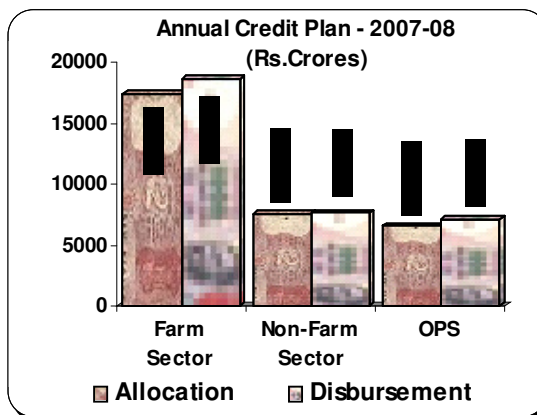
**Table-6: Credit-Deposit Ratio** (in percentage)

Area	2005-06		2006-07		2007-08	
	Tamil Nadu	All India	Tamil Nadu	All India	Tamil Nadu	All India
Rural	87.17	13.14	90.45	60.81	87.82	59.93
Semi urban	76.13	50.12	77.53	51.70	81.11	52.65
Urban	120.72	77.72	121.42	76.72	122.81	80.08
<b>Total</b>	<b>109.05</b>	<b>71.63</b>	<b>110.15</b>	<b>71.80</b>	<b>111.80</b>	<b>134.17</b>

Source: Quarterly Statistics on Deposit and Credit of Scheduled Banks, RBI, June 2007-2008.

## Annual Credit Plan:

The Annual Credit Plan of the banks in Tamil Nadu for the year 2006-07 showed an exemplary achievement of 106 percent with a credit disbursement of Rs.28418.73 crores as against the allocation of Rs.26831.49 crores. During 2007-08, the total credit disbursement was Rs.33282.89 crores as against the allocation of Rs.31482.42 crores registering the same level of 106 percent.



**Table -7: Annual Credit Plan – 2007-08** (Amount in Crores)

Sector	April 2006 to March 2007		Achievement (%)	April 2007 to March 2008		Achievement (%)
	Credit Allocation	Credit Disbursement		Credit Allocation	Credit Disbursement	
<b>Farm</b>	15388.32	16137.49	105	17357.06	18591.62	107
<b>Non-farm</b>	6314.54	5995.44	95	7578.98	7617.16	101
<b>OPS *</b>	5128.63	6285.80	123	6546.38	7074.11	108
<b>Total</b>	<b>26831.49</b>	<b>28418.73</b>	<b>106</b>	<b>31482.42</b>	<b>33282.89</b>	<b>106</b>

\* OPS - Other Priority Sectors Source: Indian Overseas Bank, Lead Bank Dept, Chennai.

Under the Annual Credit Plan 2007-08, the credit flow to Farm Sector totalled Rs.18591.62 crores as against the plan allocation of Rs.17357.06 crores accounting for an achievement of 107 percent. The advances made by the banks under Other Priority Sectors was Rs.7074.11 crores as against the plan allocation of Rs.6546.38 crores representing 108 percent achievement. Under Non-Farm Sector, the achievement was 101 percent with a disbursement of Rs.7617.16 crores.

## Performance of Commercial Banks in Tamil Nadu:

The performance of commercial banks in Tamil Nadu under the prescribed National Norm is highlighted below:

**Table - 8: Performance of Commercial Banks**

Parameters	National Norm (%)	Achievements		
		Mar-06	Mar-07	Mar-08
Priority Sector Advances to total Sectors	40	40.57	39.63	49.18
Agricultural Advances to total Sectors	18	13.87	15.37	18.96
Weaker Sections Advances to total Sectors	10	7.53	8.85	10.30

*Source : Indian Overseas Bank, Lead Bank Dept, Chennai.*

The share of Priority Sector advances to total advances as on march 2008 worked out to 49.18 per cent which is more than the national norm of 40 per cent. The share of credit flow to agricultural sector to total advances accounted for 18.96 per cent which is greater than the norm of 18 per cent. Though lending to weaker sections has gone up from 8.85 per cent in March 2007 to 10.30 per cent in March 2008, it is just over the national norm of 10 per cent.

The march 2009 statistics shows a decline in deposits. The reason for this fall is that depositors are shifting cash from banks to other investment tools to take advantage of tax benefits that are available in instalments such as Public Provident Fund and Life Insurance. The fall in interest rates is responsible for the series of changes prevailing in the banking front. This is having its impact on the deposit mobilization and lending activities of the banks.

## Co-operative Banking:

Co-operative credit institutions occupy an important position in the financial system of the Tamil Nadu economy in terms of their reach, volume and purpose of operations. The cooperative societies in the rural areas play a pivotal role in the rural credit delivery system. At the same time, the urban cooperative banks aim at mobilisation of savings from the middle and lower income groups and purvey credit towards the weaker sections and priority segments. The objective of co-operative banking is to create enduring and sustainable financial institutions to cater to the needs and credit requirements of the weaker sections. The Co-operative Banks in Tamil Nadu have been contributing to the development of rural Tamil Nadu due to its geographical spread combined with the increased number of retail outlets, volume of credit disbursed and more members or roll. However, over the period, the health of these institutions had shown signs of weakness and needed correction. It was with the desire to correct and strengthen these weak cooperatives that the NABARD entered into an MOU with the Government of Tamil Nadu.

The Co-operative banking sector has emerged as a social and healthy banking institutions providing need-based quality banking services essentially to the middle and lower middle classes and marginalized sections of the society. The short term and medium term co-operative credit structure has the following three tiers.

- The Tamil Nadu State Apex Co-operative Bank at the State level;
- Central Co-operative Banks at the District level; and
- Primary Agricultural Co-operative Banks at the Village level.

### **Tamil Nadu State Apex Co-operative Bank:**

The Bank has been channelling funds provided by NABARD towards short term and medium term loans for agricultural and non-agricultural purposes through its affiliates. As on 30.06.2008, the Tamil Nadu State Apex Co-operative Bank has a share capital of Rs.61.07 crores, reserves of Rs.626.76 crores and deposits of Rs.3993.71 crores. The Bank earned a net profit of about Rs.38.89 crores during 2007-08.

### **District Central Co-operative Banks:**

There are 23 District Central Co-operative Banks functioning in the State. These banks are financing the Primary Agricultural Co-operative Banks from their own resources and also funds floated from NABARD. They are also financing Primary Handloom Weavers Co-operative Societies. These banks provide both agricultural and non-agricultural loans.

As on 31.03.2008, the District Co-operative Banks have a share capital of Rs.1140.35 crores, reserves of Rs.1970.73 crores, deposits amounting to Rs.8975.48 crores and working capital of Rs.14742.56 crores.

### **Primary Agricultural Co-operative Banks:**

There are 4537 Primary Agricultural Co-operative Banks functioning in the State which provide short term and medium term loans for agricultural and allied activities. They have also been providing non-agricultural loans.

### **Long Term Credit Structure:**

The long-term credit structure consists of Tamil Nadu Co-operative State Agriculture and Rural Development Bank at the State level and Primary Co-operative Agriculture and Rural Development Bank at taluk / block level. These banks disburse loan to the members for development purposes like minor irrigation, horticulture and plantation crops. There are 180 Primary Co-operative Agriculture and Rural Development Banks at the taluk / block levels. The performance of these long-term credit institutions was not satisfactory during the last five years.

### **Urban Co-operative Banks:**

Urban Co-operative Banks are extending credit facilities to the people living in urban and semi-urban areas. At present, there are 129 Urban Co-operative Banks functioning in the State. They have issued short-term loans to an extent of Rs.2004.36 crores during 2006-07. The deposit position stood at Rs.2448.19 crores. Besides these banks, 41 urban credit co-operative societies are also functioning in the State to supply credit in urban and semi-urban areas.

## **Financial Inclusion Project in Tamil Nadu:**

The banks in India are ready to open doors to the less privileged classes of the society. Micro finance is a buzz word in Banking circles. Banks are offering loans to beggars, commercial sex workers and tribals through SHGs. Reserve Bank of India, Chennai, has decided that, initially, at least one village per block may be taken up for 100 percent coverage under financial inclusion in the State.

### **Box:2**

#### **Financial Inclusion**

"Financial inclusion is delivery of banking services at an affordable cost ('no frills' accounts) to the vast sections of disadvantaged and low income group. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy".

The project has been implemented in Cuddalore and Karur districts from 01.06.2006 and it is under progress. RBI has further decided to implement Financial Inclusion in the districts of Kanniyakumari, Nilgiris and Thiruvapur also. In Kanniyakumari district, the Project was launched on 03-07-2007 and in Thiruvapur district on 08-08-2007 and in The Nilgiris on 20<sup>th</sup> September, 2007.

## **Micro Credit:**

The Self Help Group (SHG)–Bank Linkage programme initiated by NABARD is the most effective and countrywide micro-finance movement in India to uplift the poor. SHG banking is a new dimension of quality lending with minimal risks and low transaction costs both for banks and the poor customers. The basic objective of SHG – Bank linkage is economic empowerment of rural poor by improving their access to the formal credit system through various credit innovations in a cost effective and sustainable manner.

## **SHG – Bank Linkage Programme in Tamil Nadu:**

The SHG Bank Linkage Programme of NABARD is an initiative to strengthen some of the weaknesses of the Co-operatives has emerged as a primary model for providing micro finance in the country resulting in extending access of formal financial services to the unbanked rural clientele. Tamil Nadu positioned second in the country, after Andhra Pradesh, in SHG Bank- Linkage programme. Wide network of NGOs, banks and government agencies assisted the revolutionary outcome and expansion of the programme in Tamil Nadu. During 2007-08, 74636 new SHGs were credit linked to banks in the State disbursing bank loans to the tune of Rs.1061.80 crores. As on March 2008, the cumulative number of SHGs credit linked in the State was 477612 and the cumulative quantum of bank loans aggregated to Rs.4878.13 crores. Refinance to the tune of Rs.390.20 crores was disbursed to banks in respect of over 82880 groups during the year 2006-07. The relevant details are given below:

**Table -9: SHG – Bank Linkage Programme in Tamil Nadu** (Rs. lakhs)

Year	No. of New SHGs Credit Linked	Amount of Bank Loan Disbursed	Cumulative No. of SHGs Linked	Cumulative Amount of Bank Loan Disbursed
2004-05	70437	74647.47	220698	167789.99
2005-06	92080	64040.92	312778	231830.91
2006-07	86166	71528.64	398974	381632.20
2007-08	74636	106180.80	477612	487813.00

Source: NABARD

### Rural Infrastructure Development Fund (RIDF) in Tamil Nadu:

RIDF is a Fund maintained by NABARD for financing the ongoing rural infrastructure projects implemented by the State governments, which are facing resource crunch. The Government of Tamil Nadu have been availing finance through RIDF to maintain and develop diversified activities like roads and bridges, irrigation, power, schools, provision of drinking water, health, etc. in rural areas. There has been a steady growth in the disbursement of funds under RIDF from Rs.358.85 crores in 2002-03 to a cumulative level of Rs.6243.71 crore in November 2008. The sector-wise disbursement during 2007-08 shows that roads accounted for a significant share of 53.62 per cent. The other sectors with sizeable share in disbursement were school (17.62%), Irrigation (12.86%).

A Pilot Project on SHG-Post Office Linkage Programme initially launched by NABARD in five select districts of Tamil Nadu namely Pudukottai, Sivagangai, Tiruvannamalai, Thanjavur and Tiruvarur intends to utilize the vast network of post offices in rural areas in the disbursement of credit to the rural poor on agency basis. As of 30<sup>th</sup> September 2008, 28857 SHGs have opened zero interest savings account wherein 658 SHGs have been credit linked by the participating post offices to the tune of Rs.1.58 crores.

### Small Savings:

Small savings, which promote thrift among the small investors and contribute to the raising of resources continued to decelerate from 2006-07. The gross collection was Rs.10858.97 crores in 2006-07, which was 17.28 per cent lower than the collection in 2005-06. The gross collection had further declined to Rs.7791.11 crores. The revision of interest rates, alternative avenues of saving and taxation policies of Union Government may be the possible reasons for the deceleration in the Small Savings collection.

**Table- 10: Small Savings Collection in Tamil Nadu** (Rs. crores)

Year	Gross Collection	Net Collection	Net to Gross Ratio (%)	% change over Previous year (Net Collection)
2004-05	11333.84	6431.93	56.75	62.06
2005-06	12455.75	5594.13	44.91	-13.02
2006-07	10858.97	3069.25	28.26	45.13
2007-08	7791.11	-965.98	12.40	-68.52

Source: Directorate of Small Savings, Chennai-2.

The Credit Delivery System in Tamil Nadu as on March 31st 2008 showed that the total deposits increased from Rs.165483.95 crore as at the end of March 2007 to Rs.205271.14 crore as at the end of March 2008 showing an incremental growth of 24 per cent. The total advances increased from Rs.186406.36 crore in March 2007 to Rs.241556.44 crore in March 2008 showing an increase of 30.0 per cent.