



Savings Products of of RRBs **A Case study of Pragathi Gramin Bank¹**

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Abstract

Regional Rural Banks (RRBs) have played a key role in India in enhancing financial services in rural areas. Apart from their focus on lending to the priority sector, Regional Rural Banks have evolved different savings products to provide safe savings options in the rural areas. This case study of Pragathi Gramin Bank has made an attempt to elicit the savings mobilization strategies and analyzed the users' perceptions on different savings products offered by RRB.

1. Introduction

Regional Rural Banks (RRBs) were set up in 1975 by the Government of India in collaboration with State Governments and the Nationalized Banks to provide financial services to the large underserved and unreached rural population. Although many cooperative and commercial banks were in operation prior to this, they were unable to cater the savings and credit needs of the rural poor. The cooperative banks, in spite of having a better geographical coverage in rural areas, were serving mostly the rural rich whereas the commercial bank mainly concentrated in urban areas hence did not target the rural poor. To bridge the gap, the government of India appointed Narashimam Committee in 1975 which recommended the formation of Regional Rural Banks. They were established “with a view to developing the rural economy by providing, for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto” (RRB Act, 1976)

The Central Government, State Governments and the Sponsor Banks hold the equity of RRBs in the ratio of 50:15:35 respectively. In the first 15 years, the expansion of RRB peaked to 196 with 14,473 branches, of which more than 80 per cent branches were established in rural areas. It was expected that these banks will become viable in seven to eight years of operations, since their inception. However, by the early nineties many of the RRBs became increasingly unviable resulting in no further expansion and with an increased need for restructuring. After almost a decade of debate, from 2005 the RRBs

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were amalgamated, to improve the operational efficiency and to achieve the economies of scale. As on November 30, 2007, there were 47 amalgamated RRBs, with the merger of 153 RRBs in the country (RBI, 2008).

RRBs have been serving largely in rural areas providing several financial services. They evolved several savings products keeping in view of the local needs to attract the deposits mainly from rural poor. Many studies³, particularly focusing on viability issues, operational aspects and on lending to priority sectors have been done. However, there is a need to understand the efforts of saving mobilization by RRBs and the perception of people on these products.

In this connection, the present case study analyzes the efforts of saving mobilization of Pragathi Gramin Bank in Northern Karnataka. After the amalgamation of RRBs, in the year 2005, there are four RRBs in Karnataka. 1) Canara Bank sponsored Pragathi Gramin Bank 2) State Bank of Mysore sponsored Cauvery Gramin Bank 3) Syndicate Bank sponsored Karnataka Vikasa Gramin Bank, and 4) SBI sponsored Krishna Gramin Bank.

Of these four RRBs, Pragathi Gramin bank was selected, as it operates in eight districts of northern and central regions of Karnataka, which has more concentration of rural population and comparatively less developed than other regions of the state. Out of the eight districts where it operates, Raichur was selected, as this district is one of the most backward districts in Karnataka. For the study Deodurg taluk of Raichur district was selected as it is one of the least developed taluka in the district. Two branches representing rural and urban branches were selected and interviews were held with staff and Managers of Branch and regional offices. The customers of the banks were interviewed to elicit their perception and satisfaction on savings products.

2. Profile: Pragathi Gramin Bank

Canara Bank had sponsored four RRBs in Karnataka. They are Tungabhadra Gramin Bank, Chitradurga Gramin Bank, Kolar Gramin Bank & Sahyadri Gramin Bank. These were amalgamated in to Pragathi Gramin Bank (PGB) in 2005. It is headquartered at Bellary, and has been serving in eight districts of Karnataka with a total of 354 branches, of which 273 are in rural areas and 61 are in urban and semi-urban areas. As on 30th September 2007, PGB had mobilized Rs. 25.48 billion deposits and advanced credit of Rs. 24.29 billion. It has a customer base of nearly 2.2 million.

2.1 Savings Products of Pragathi Gramin Bank

Pragathi Gramin Bank has many savings products developed with guidance from the sponsoring Canara Bank. The following table depicts the different savings products and their salient features.

³ Sanjay Sinha (2003), Sukanya Bose (2005)

Table 2: Savings Products of Pragathi Gramin Bank

Sl. No	Product Name	Features	Criteria/ conditions
A) Demand Deposits			
1	Saving Bank accounts	<ul style="list-style-type: none"> • Regular deposit scheme • Targeted for all customers including borrowers 	<ul style="list-style-type: none"> • Minimum balance of Rs. 250. For cheque book facility Rs. 500 should be kept.
2	No frills savings accounts	<ul style="list-style-type: none"> • Under the financial inclusion scheme of the GOI to bring all household to have bank account • No minimum balance 	-
3	Current Account	<ul style="list-style-type: none"> • Targeted for institutions. • Multiple deposit and withdrawals 	-
4	Jeeva Nidhi (Started from 1989)	<ul style="list-style-type: none"> • Insurance linked (with United India Insurance Company) scheme • Rs. 25,000 accidental insurance • Premium is paid out of the interest earned from SB account. 	<ul style="list-style-type: none"> • Minimum deposit of Rs. 500 need to be maintained to get insurance coverage
5	Pragathi Silver Jubilee Jeeva Nidhi – 1 (Started from 2001)	<ul style="list-style-type: none"> • Insurance linked scheme • Insurance coverage Rs. 50,000 	<ul style="list-style-type: none"> • Minimum deposit of Rs. 1,000 needs to be maintained to avail insurance coverage
6	Pragathi Silver Jubilee Jeeva Nidhi – 2 (Started from 2001)	<ul style="list-style-type: none"> • Insurance linked scheme • Insurance coverage Rs. 100,000 	<ul style="list-style-type: none"> • Minimum deposit of Rs. 2,000 needs to be maintained to avail insurance coverage
7	Nitya Nidhi Deposit	<ul style="list-style-type: none"> • Targeted for daily wage earners • Deposit collected at door step by Bank agents • Can avail loan after six months of satisfactory operations 	<ul style="list-style-type: none"> • No interest will be paid if discontinued with in three months.
B) Term Deposits			
1	Kamadenu Deposit	<ul style="list-style-type: none"> • Interest reinvestment scheme • Small amounts starting from Rs. 	<ul style="list-style-type: none"> • Minimum deposit period is 6 months and

		100 also can be deposited	maximum is 120 months • Premature withdrawals attracts penalty
2	Fixed Deposit scheme	<ul style="list-style-type: none"> • Interest will be paid on Monthly / quarterly basis • 	<ul style="list-style-type: none"> • Minimum deposit period is 45 days and maximum period is 120 months
3	Recurring Deposit	<ul style="list-style-type: none"> • Designed for inducing regular savings in small amounts to get lump sum amount on maturity • No tax deduction at source • Minimum amount will be Rs. 50 per month 	<ul style="list-style-type: none"> • Duration is minimum 6 months and maximum 120 months • Late payments attracts penalty at the rate of 1.5 per cent per month
4	Bala Kshema Nidhi (Currently discontinued)	<ul style="list-style-type: none"> • Targeted for school children to inculcate savings habits. Savings box given to students and keys were kept in the Bank. Once in a month bank officials visited school to collect deposits. 	-
5	Pragathi Dhan Labh (Special scheme for a specific period to mobilize deposits)	<ul style="list-style-type: none"> • Higher interest rate for shorter lock-in period. 	<ul style="list-style-type: none"> • Minimum deposit Rs. 1,000 and no maximum limit

It can be observed from the table that the bank is promoting more demand deposits with simple features and attractive inbuilt incentive such as insurance to bring more customers. The interest accrued from the minimum deposit is used by the bank to pay the insurance premium. Customers availing higher insurance need to keep higher minimum balance. This has helped many rural people to avail insurance service

3. Savings Mobilization Strategies

Quarterly village level awareness campaign is the main strategy being followed by the bank for savings mobilizations. These campaigns are in the form of holding village meetings, distribution of handouts, leaf lets, giving information on savings product features etc. In these campaigns importance of savings and features of different savings products are explained by the bank officials. Apart from this, bank also observes special deposit mobilization fortnight with special schemes like Pragathi Dhan Labh.

Another strategy adopted is the use of Vikasa Voluntary Vahini Clubs (VVVCs) popularly known as ‘Farmers Club’ for creating awareness and deposit mobilization from the poor households with support from NABARD. VVVCs are formed involving not more than 20 volunteers identified by bank officials and the community members. These clubs act like a bridge between the community and the bank. Pragathi

The bank has simplified account opening forms by use of vernacular language. Secondly introduction from an account holder is not necessary. Such hassle free systems for opening of accounts were adopted as strategy to attract more rural customers.

The computerization of the bank has taken place partly, and the bank has plans to adopt online service to extend more services to the customers with reduced operating costs. Opening of ATMs in rural areas also has been planned, keeping in view the experience of other banks using such technology in rural centres.

4. Analysis of Savings Products at Branch Level

In order to understand the outreach and customers perception on different products, the study team interacted with two bank branches representing rural and urban branches located in Deodurga Taluk, Raichur district, Karnataka. Followings are the status of different deposit accounts in these two branches as of 31st August 2007

Table 3: Product Wise Details - Deodurga Branch (Urban)

Sl. No	Name	No. of Accounts	% of total accounts	Deposit (Rs. Million)	% of Deposit	Average Deposit amount (Rs)
	Demand Deposit					
1	Current account	153	1.23	5.75	5.37	37,621
2	Jeeva Nidhi *	11,118	89.22	74.88	69.88	6,736
3	Nitya Nidhi Deposit	194	1.56	2.58	2.41	13,330
	Term Deposit					
1	Kamadenu deposit	939	2.53	20.59	19.21	21,933
2	Fixed Deposit	19	0.15	1.85	1.73	97,789
3	Recurring Deposit	16	1.13	0.13	0.12	8,625
4	Pragathi Dhan Labh	23	0.18	1.38	1.29	60,130
	Total	12,462	100.00	107.16	100.00	

* Includes all three types of Jeevanidi Savings accounts as segregated data was not available

Table 4: Product Wise Details - Jalahalli Branch (Rural)

Sl. No	Name	No. of Accounts	% of total accounts	Deposit (Rs. Millions)	% of Deposit	Average Amount (Rs)
	Demand Deposit					
1	Jeeva Nidhi Deposit (SB Account)	692	19.18	0.22	1.90	318
2	Pragathi Jeevanidhi Deposit 1	1,883	52.19	2.17	18.74	1,152
3	Pragathi Jeevanidhi Deposit 2	770	21.34	2.36	20.38	3,065
	Term Deposit					
1	Kamadenu deposit	250	6.93	6.49	56.54	25,996
2	Fixed Deposit	3	0.08	0.25	2.16	83,667
3	Dhan Labh Schemes	2	0.06	0.06	0.52	32,000
4	Recurring Deposit	8	0.22	0.03	0.26	3,750
	Total	3,608	100.00	11.58	100.00	

It can be seen from the above tables that, large proportion of accounts both in urban and rural branches fall in Demand Deposit category rather than Term Deposits. This indicates the preference of the customer in this region to have any-time-withdrawal facility. Hence liquidity is the critical features expected by customers. There exist difference between urban and rural branches in terms of average deposit amount. Urban branch customers have kept balance three times balance amount in Jeeva Nidhi saving bank account than that of rural customers.

Among the Term Deposit Schemes, Kamadhenu Deposit Scheme, which is the interest reinvestment scheme, is more popular both in rural and urban branches. These accounts have an average deposit of Rs. 22,000, and Rs. 26,000 in urban and rural branches respectively. Though, this product offers to invest small amounts i.e starting from Rs. 100, most of the deposits are of high value, which indicates that, customers of this product are probably from well off households.

5. Perception on Savings Products

5.1 Bankers perception

The interactions with Manager and staff at the Branch and officials at regional office revealed that, the penetration of Regional Rural Bank has been good in terms of opening of bank accounts. Regarding other savings products, they felt that, good response has come for Kamadenu Deposit Scheme, attractive interest rate being the main reason. Recurring Deposit have poor response. According to them the reason for such low response for RD, is the seasonal income flow of the households from agriculture, which does not allow them to make monthly contributions.

The staff with whom the study team interacted felt, the attitude of people towards saving in the operational area is not very favourable. . Whatever surplus income they get are spent on social ceremonies and purchase of luxurious items with out caring for future needs. This is mainly due to lack of awareness for planning and leading an organized life. Changing the mindset of people and encouraging them to save for the future has been a big challenge for the bankers. According to them, people prefer the option of ‘saving down⁴’ rather than ‘saving up⁵’. For example people come forward to take up Nitya Nidhi Daily Deposit scheme because it is linked to loan, which can be availed after six months of regular savings.

5.2 Customers Perception

The study team interacted with six customers in urban branch and four customer in rural branch. Of the total ten customers the team interacted, nine had demand deposit type of account i.e Jeeva Nidhi scheme and only one customers had term deposit with Kamadenu scheme. The main reason they cited for opening these account is to avail loan for agricultural operations. They had opened the account three years back on the advise of the bank staff. They felt that lack regular income flow is the main reason for not having any term deposits. They prefer easy liquidity rather than expecting good return on the deposit amount. In customers opinion, though there are many bank branches available at bigger villages, still they are inaccessible as they are situated far away from villages. They felt that, doorstep delivery of services is required in the villages as people do not have easy access to bank branches. According to them Regional Rural Banks are most safest place to make deposit as they are oldest bank and nationalized banks.

Regarding the awareness level on different savings scheme, they are aware about the important saving scheme and their salient features. According to them, the ‘Farmers Club’ in the village have made little impact on people to make use of the bank facilities. Similarly, Recurring Deposit scheme has less response mainly for two reason. One, the income flow is not adequate and regular in villages. Secondly, lack of publicity and promotional activity by the banks. Hence constant persuasion about the product is most important particularly in rural areas.

6. Analysis and Conclusion

Pragathi Gramin Bank has been serving the rural population since past 27 years in Deodurga Taluk, Raichur district. Over the years it has evolved many saving products keeping in view the customers preferences. It has used campaigns, special deposit mobilization fortnight, farmers clubs etc as saving mobilization strategies. Mainly bank officials are involved in such mobilization campaigns. In spite of all these, the penetration to the rural segment is not adequate. More importantly, all these strategies did

⁴ Saving down refers to availing a lump sum in the beginning and repaying it in small installment over a period of time.

⁵ Saving up refers to accumulating small amounts over a period of time to get a lump sum amount at the end.

not succeeded in changing the mindset of the people towards savings. The people have opened accounts mainly for availing loans and government subsidies

Analysis of the various savings products of Pragati Gramin Bank and perception of customers on these products has brought out three important elements. First people prefer easy liquidity option. This is more so in rural and less developed region. The skewed response to the demand deposits of the bank (more than 93 percent of all bank accounts fall in demand deposit) compared to term deposit justifies this fact. The lack of sufficient promotional efforts by bank for promoting term deposits could be the other reason for less preference for term deposit.

Second important element is the accessibility. Though most of the bank branches of RRB are located in rural areas, they are still inaccessible to many villages. People prefer door step service delivery, but, banks are not in a position to provide that. In this connection, operation of the Banking Corresponding model seems to be appropriate. Finally, the customers prefer safety rather than high return on their deposit. This has made many rural customers to open the account in the RRBs.

Keeping in view the backwardness of the region and peoples' less favourable attitude for savings, Pragathi Gramin Bank has tried to provide additional feature of insurance for the saving bank account. This additional feature has made the product more meaningful and at the same time it has helped bank to mobilize more deposit from large number of accounts. By developing more variants in the insurance linked demand deposit i.e greater insurance coverage with high minimum balance, it has given more options for different income segment households.

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