



KERALA GRAMIN BANK: A STUDY WITH A FOCUS ON HOUSING FINANCE

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Abstract

Regional Rural Banks (or, RRBs), as the name suggests focuses on providing banking services to rural customers. Hence, they can play a vital role in rural development in India. The paper suggests that rural credit in general and rural housing in particular should be aggressively promoted in India for sustained and equitable economic development of the nation. Considering the special case of Kerala Gramin Bank (KGB) which has its operations in Kerala State, the paper looks into its performance with special reference to housing finance and offers suggestions for improving its performance.

Keywords: *Housing finance, Mortgage to GDP ratio, Linkages, Rural Housing, PMAY-G, ICT.*

1. Introduction

It is extensively acknowledged in the literature that Regional Rural Banks (or, RRBs in short) can greatly contribute towards rural development in India, because of the fact that RRBs (or, Gramin Banks) have the basic mandate for accelerating the pace of rural development by addressing the banking needs of the rural masses. Thus, by focusing on the development of agriculture and allied fields of a rural economy including promotion of diverse kinds of rural infrastructure development, RRBs perform a commendable role in the balanced and equitable economic development of India. RRBs are primarily envisaged to be the banking entities focusing on the villages or rural areas. In fact, RRBs focus on providing rural credit by way of raising funds from the general public by way of deposits and also using the funds from the Government, including various kinds of re-finance facilities, subsidies, etc. Here, one peculiarity of the RRBs is that they are jointly-owned by three distinct public sector entities viz. (i) a Sponsor Bank – often a Nationalized Bank, (ii) Govt. of India (GOI), and (iii) the respective State Government, like, Govt. of Kerala (GOK) for example in respect of Kerala Gramin Bank (KGB). Among the different kinds of credit facilities extended by the RRBs, housing credit is of special significance. This is because of the fact that housing investments can greatly create employment opportunities and furthermore the linkage effects of housing investments, both forward and backward, with more than 300 other sectors.

The national housing goal set by the GOI, viz. *Affordable Housing for All by 2022* has given another dimension to the added significance of housing development in India, including housing finance. The vast development potential of ICT has given another dimension to the activities of RRBs, because ICT-integration in rural credit has now become an imperative. In the above backdrop, this paper looks into the need for concentrating more on housing finance by RRBs to attain India's national housing goal, especially the rural housing segment of the national housing target, with special reference to KGB, the RRB relating to Kerala. The need for ICT adoption for enhanced service quality and cost savings in banking, especially in retail banking like housing finance is also dealt in this paper.

2. Objectives of the Study and Methodology

- (i) To study the housing market and housing affordability in India, and the role of RRBs in housing;
- (ii) To study in detail the performance of Kerala Gramin Bank (KGB) with a focus on housing credit portfolio, and also the impact of ICT, if any, on the functioning of KGB and its business; and
- (iii) To suggest strategies for the better performance of KGB in housing finance in this digital era.



This is a descriptive-analytical study was done primarily using the secondary data from authentic sources like the reports and other publications of the RBI, NHB, NABARD, KGB etc. and also GOI and GOK. The paper is exploratory also, and no hypothesis has been formulated. The data collected were analysed using the basic types of statistical and economic tools to arrive at the findings.

3. Previous Studies

An empirical study at the international level done in Philippines by Pickens (2009) has noted that ICT could be effectively employed for bringing about financial inclusion and hence empowering the unbanked masses. Accordingly, a simple and very affordable ICT-based device viz. mobile phone could be instrumental for making radical transformation in rural areas. Mobile phone could enable the masses to get access to formal banking services, and hence it could enable financial inclusion, rural development, empowerment of women. In India or elsewhere in the world, the growing affordability of mobile phones and such other ICT-based devices and applications among the unbanked masses, the successful Philippines experience noted above could be replicated. In India, a State like Kerala with a very high literacy and internet penetration could definitely leverage from the above global experience. A study done in the Kerala (India) context by James, N., & Manoj, P. K. (2014), Relevance of E-Banking Services in Rural Area—An Empirical Investigation in *Journal of Management and Science* too has noted the vital need for expanding the banking services in rural Kerala, particularly through ICT-integration, like, expanding e-banking (online banking) and such other ICT-enabled services. Since even the rural people, including women, have relatively educated and are techno-savvy and hence can effectively use ICT-based services, the authors have suggested for extending ICT-enabled services even in rural areas, as this could foster rural development and women empowerment through financial inclusion. Another study by N James & PK Manoj (2014), ‘Unorganized Labour in Housing Construction Sector in Kerala: an Empirical Investigation of The Human Rights Issues and Other Problems’ in *International Journal of Scientific Research* has noted the vital need for improving the working conditions of unorganised construction workers and has noted that the human rights issues need to be addressed. A study by Vasantha, S., Manoj, P.K. & Jacob Joju (2015), ‘E-CRM: A Perspective of Urban and Rural Banks in Kerala’ in *International Journal of Recent Advances in Multidisciplinary Research* has noted the utmost need for the promotion of E-CRM by banks in both rural and urban areas for providing better customer service and also for their better business growth.

A macro study by Manoj P.K. (2016), ‘Bank Marketing in India in the Current ICT Era: Strategies for Effective Promotion of Bank Products’ in *International Journal of Advance Research in Computer Science and Management Studies*, has noted the utmost need for ICT-integrated marketing of banking services in this era of growing ICT-enabled banking services in India. Another research paper by J Joju, S Vasantha, PK Manoj (2017), ‘Electronic CRM & ICT-based banking services: An empirical study of the attitude of customers in Kerala, India’ in *International Journal of Economic Research* has pointed out the very high significance of promoting CRM and such other ICT-enabled banking services for ensuring enhanced customer service as well as better business growth and competitiveness. A study by Manoj P.K (2012), ‘Potential of micro enterprises in women empowerment: A critical study of micro enterprises run by women under the Kudumbashree Programme in Kerala’ in *International Journal of Business Policy and Economics* has noted the vital role of micro enterprises (MEs) under Kudumbashree in socio-economic empowerment of women. This study too has not covered the housing-related activities of Kudumbashree or the MEs under Kudumbashree. A joint research paper by Nasar, K.K. & Manoj, P.K. (2014), ‘Factors Influencing the Purchase of Apartments: Some Empirical Evidence’, *CLEAR International Journal of Research in*



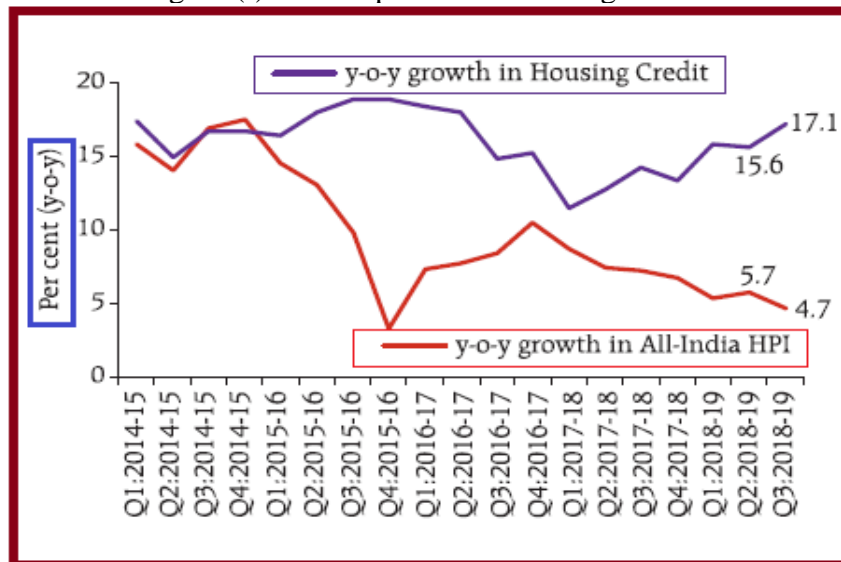
Management has noted the major factors influencing price, quality, location, image of the developers etc. of the apartment and the authors have suggested strategies for the growth the housing sector.

From the above, it is noted that systematic research studies which explore the key role that RRBs could play in facilitating balanced, inclusive and equitable economic growth by ensuring access to formal banking services are scarce. This is particularly true in respect of housing finance, especially in respect of enabling development of affordable housing units for the masses, especially the rural poor. In view of the above, this study seeks to focus on the performance of KGB with a focus on housing credit. The ICT initiatives along with the implications of ICT initiatives on its credit portfolio.

4. Housing Market and Housing Affordability in India and the Role of RRBs

There has been a generally increasing trend in housing credit growth in India over the years, especially after FY 2017. It may be noted that the period of growing housing credit after FY 2017 is associated with steadily falling HPI (Housing Price Index) also for almost two years till Q3, FY 2019. (Figure I).

Figure (I): Developments in Housing Market



Source: RBI (2019), *Financial Stability Report*, June, p.15.

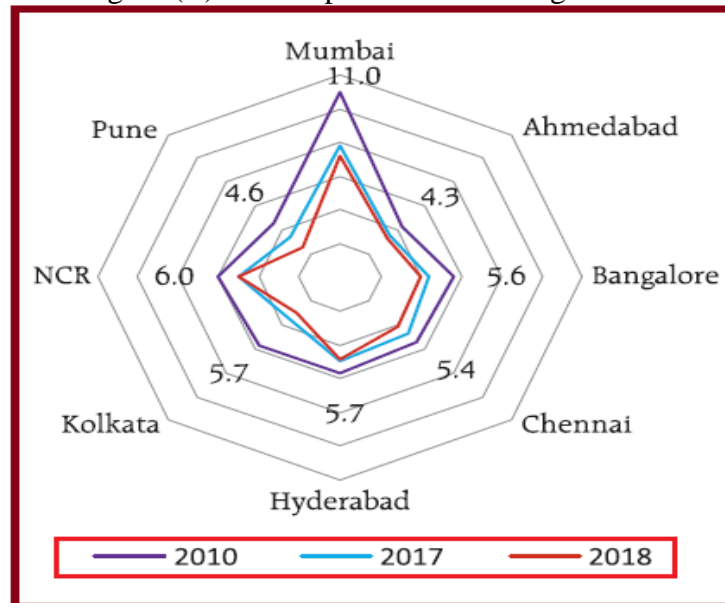
Regarding the steadily growing housing credit coupled with falling housing price index, it may be noted that house price-to-income ratio has been coming down during the period 2010 to 2018. This in turn suggests better affordability of housing loans to those who need housing finance, and hence faster growth prospects for lower-sized (affordable) housing loans. In fact, Figure (II) is self-explanatory in this regard. Thus, there is a growing trend in favour of affordable housing in India over the last one decade or so, say, since 2010. So, the RRBs in India should take advantage of this favourable situation and promote housing loans, especially the affordable type housing loans. (Figure I and Figure II).

The RBI has recently revised instructions on Rationalisation of Branch Authorisation Policy dated May 31, 2019. This latest policy guideline has introduced a new concept called Banking Outlet (BO) for RRBs, one which is identical to the guidelines already of instructions issued to SCBs. As per the revised instructions as above dt. 31 May 2019, RRBs can open branches in Tier 1 to 4 centres (based on the Census 2011 data) only with the prior approval of the RBI and also subject to the compliance of various eligibility criteria prescribed by the RBI in this regard. Thus, a banking outlet of an RRB



becomes operational only after it has opened at least 25 percent of its total banking outlets in the previous fiscal in a Unbanked Rural Areas. The current situation, needless to mention is favourable to the RRBs in India for promoting their affordable type housing loans. More importantly, the RRBs (and other agencies like SCBs and HFCs) can very well support the attainment of the national housing loan viz. *Affordable Housing for All by 2022* of the Govt. of India (GOI).

Figure (II): Developments in Housing Market



Source: RBI (2019), *Financial Stability Report*, June, p.15.

Given the very extensive linkage effects of housing with large number of other sectors, about 350 or more, and hence its capacity to create multiplier effects in the economy makes the investments in housing the most preferred option for bringing about faster economic development. This is especially relevant for a developing nation like India, as the promotion of housing sector results in simultaneous revival of large number of other sectors in the economy. Moreover, investment in housing becomes an option for kick-starting an economy in slump, say, during recessionary situations. Often, housing is termed as a ‘growth engine’ of an economy and this analogy holds good particularly in a typical developing economy like India. Above all, the very low Mortgage to GDP Ratio (MGR) of nearly 10 percent in India as against upto 80 percent or even more in other nations like the US is another rationale for aggressively promoting housing development in the specific case of India. The case of housing finance by the RRBs, like KGB – the sole Kerala-based RRB since FY 2014, has got another peculiarity that RRBs caters primarily to rural customers than other agencies like the Commercial Banks (CBs), Housing Finance Companies (HFCs) etc. So, RRBs could play a relatively significant role in the promotion of rural housing in India.

In the ongoing era, the Govt. of India (GOI) has adopted ‘*Affordable Housing for All by 2022*’ as its national housing goal. Many housing schemes seek to attain the above goal; both at the GOI level and also at the States level, like, Govt. of Kerala (GOK). The PMAY (Pradhan Mantri Awas Yojana) scheme at the GOI level, for instance, is the most prominent housing scheme in India; and many schemes at the State level, like the LIFE mission at the GOK level converges with the PMAY scheme at the national level. The PMAY itself has got two broad divisions: (1) Urban (U) viz. PMAY-U, and (2) Gramin or Rural (G) viz. PMAY-G. As formal sector financial intermediaries in India that



primarily focuses on the rural economy in India, the RRBs in India (like, the KGB in Kerala State) have the mandate to attain the Rural (Gramin) component of PMAY viz. PMAY-G, notwithstanding the fact that RRBs cater to urban customers also. Likewise, the most prominent intermediaries in housing finance in India viz. (1) CBs and (2) HFCs cater to the rural customers also in a big way, even though majority of their exposures are to the urban customers only, and so also most of their branches are in urban or metropolitan areas. In short, a concerted effort by CBs, HFCs and RRBs is required

RRBs play a vital role in rural transformation by providing credit and other banking services, including housing finance. In this reforms era in India since August 2015, the country is committed to attain its national housing goal viz. *Affordable Housing for All by 2022*, i.e. the country dreams to see that all its citizens have their own houses by the time India attains 75 years of independence in 2022. The service of RRBs are especially relevant in ensuring houses for the rural people, because 92 percent of the branches of RRBs are in rural or semi-urban areas and the rest 8 percent alone in urban areas. The PMAY (Pradhan Mantri AwasYojana) scheme of the GOI is being implemented throughout the country with the above 'Housing for All' (HFA) as its main motto. PMAY has both Urban and Rural Housing sub-components as already noted: PMAY-U (ie. Urban) and PMAY-G (ie. Rural or Gramin). Of the total target of 3 Crore rural houses (2015-2022 period) to be constructed by 2022, about 60 lakh houses only have been constructed till 31 March 2019. The revised target for the period 2019-2022 is another 1.95 Crore housing units by 31 March 2022 with a sub-target of 60 lakh units by FY 2020.

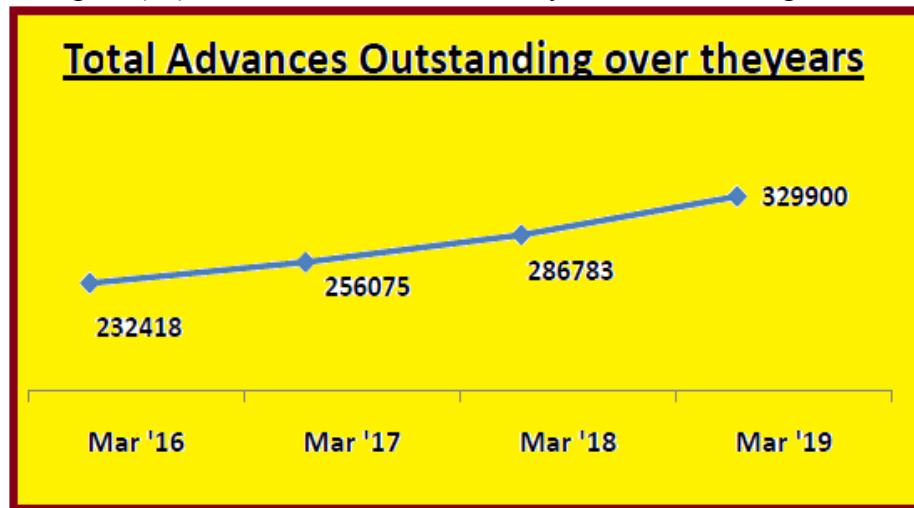
The performance of RRBs in housing finance with a focus on KGB is sought to be studied in this paper. In view of the fast proliferation of ICT (Information and Communication Technology) into all facets of the economy across the globe, including banking, the impact of ICT on the performance of a typical RRB viz. KGB needs to be studied. So, this aspect is also sought to be studied in this paper.

5. Kerala Gramin Bank (KGB): Performance in Credit with a Focus on Housing Credit

In fact, there were two separate RRBs existing in Kerala till FY 2013. They were North Malabar Gramin Bank (NMGB) and South Malabar Gramin Bank (SMGB). Later, in FY 2014 (on 08.07.2013) with the merger of NMGB and SMGB, the merged entity became a larger RRB viz. Kerala Gramin Bank (KGB) and KGB started its functioning since 2014 onwards. Now, KGB is one of the largest RRBs in India and is one among the total 45 RRBs functioning in the country as of 01st April 2019. The RBI's Rationalisation of Branch Authorisation Policy has been revised recently and accordingly a new concept of 'Banking Outlets' (BOs) are applicable for the RRBs in India, like, the KGB in Kerala. The permission for opening new BOs, in tier 1 to 4 centres, shall become applicable only after an RRB has opened at least 25 per cent of the total banking outlets during the previous financial year in Unbanked Rural Centres. The above policy is applicable to KGB also. Regarding the performance of banking sector as a whole in the advances (credit) front, there has been a consistently growing trend over the years (FY 2016 to FY 2019). (Figure III).



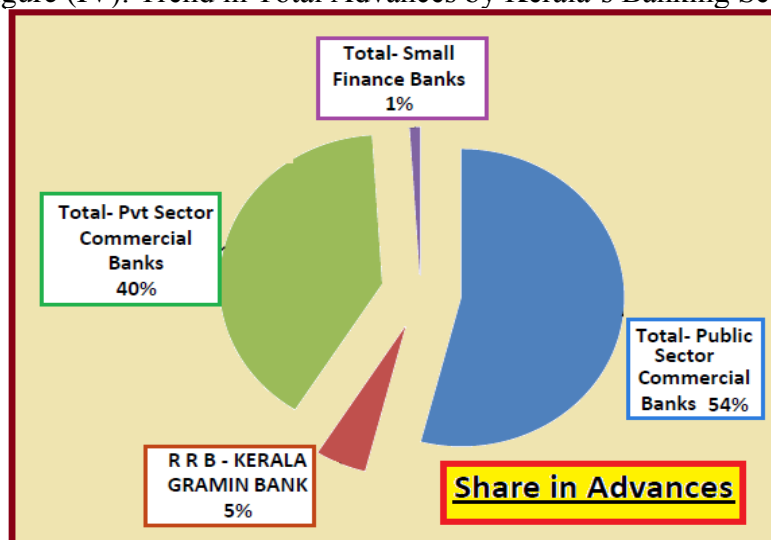
Figure (III): Trend in Total Advances by Kerala’s Banking Sector



Source: Data on Kerala Banking Sector, SLBC-Kerala, 2019.

It may also be noted that the share of Kerala’s sole RRB viz. KGB in Kerala’s banking sector in respect of advances of Public Sector Banks (PSBs) is only 5 percent. Considering all public sector entities (PSBs and RRB), the share is 59 percent, the share of PSBs being 54 percent. (Figure IV). It may be pointed out here that the public sector entities (like, PSBs, RRBs) as well as the Old Private sector Banks (OPBs) (like, Federal Bank, South Indian Bank etc.) and even the Foreign Banks (like, HSBC and Bank of America) are all bound to follow the Priority Sector Lending (PSL) norms. But, the New Generation Private sector Banks (NGPBs) (like, ICICI Bank, HDFC Bank, Axis Bank etc.) are not bound to follow PSL norms. Rural banking products and services (like, agricultural credit) being mostly extended by public sector entities (like, PSBs including RRBs) in India, either as PSL type loans or otherwise, they have a greater role in rural finance, including rural housing finance. RRBs. Now, the share of KGB, the Kerala’s sole RRB, in Kerala’s banking sector is low (Figure IV).

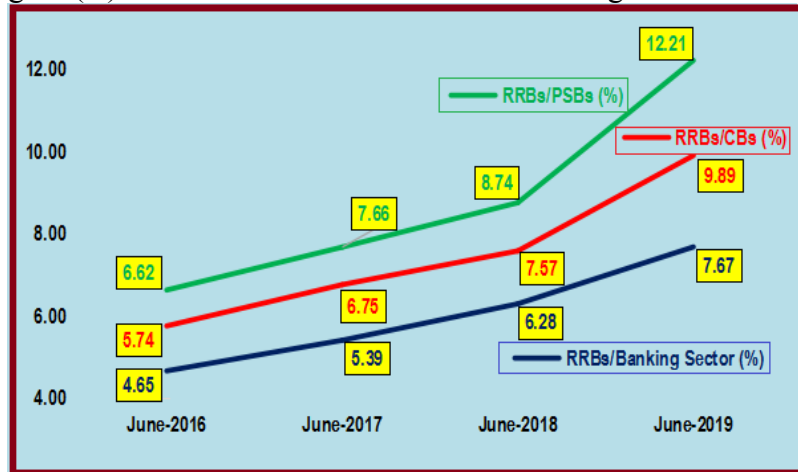
Figure (IV): Trend in Total Advances by Kerala’s Banking Sector



Source: Data on Kerala Banking Sector, SLBC-Kerala, 2019.



Figure (V): Presence of KGB in Kerala's Housing Finance Market



Source: Data on Kerala Banking Sector, SLBC-Kerala, 2019.

Presence of KGB, the sole RRB in Kerala since 2014 (earlier there were two viz. NMGB and SMGB) in Kerala's housing finance market shows a growing trend, whether we consider the whole PSBs (including KGB), or the whole Commercial Banks, or the whole banking sector. (Figure V).

6. ICT Initiatives of KGB: Impact on Business Operations and Profitability

KGB has been gradually enhancing its Infotech (ICT) infrastructure and ICT-integration of its activities. Besides ICT-integration, the supporting functions like starting of Financial Literacy Centres (FLCs) as well as organising of Digital Camps as part of its 'Going Digital' efforts are also being planned by the bank. It is noted that as a recognition of its Financial Inclusion and ICT-based efforts, KGB has been awarded 'Global Inclusion Award 2017' instituted by Child & Youth Finance International, Amsterdam, Netherlands, thus acknowledging KGB's inclusion efforts among the youth. An array of Digital products and services like 'DiGi KGB' (opening an account using a Smartphone), KGB m-Pay (mobile banking), KGB Netbanking (Internet banking), KGB DiGi Calendar etc. are a few of them. In short, KGB is striving to become a fully high-tech bank, even when it is rural-focused. These 'high-tech' initiatives give KGB an edge among the new generation customers. Needless to mention, the ICT initiatives of KGB must continue in the future too, so that it can serve its customers, mostly rural people (about 92 percent of KGB's branches are in rural or semi-urban areas).

7. Discussions, Suggestions and Concluding Remarks

In view of the foregoing, the following are the suggestions for the more effective functioning of KGB:

- (i) The presence of KGB in the total advances (credit) portfolio of Kerala's banking sector is just about 5 percent only, whereas its presence in the housing finance market is higher and is gradually growing also (4.65 percent in June 2016 to 7.67 percent in June 2019). This is an appreciable trend and this should continue in the future also, given the immense potential of the housing investments to bring about faster economic development of the State. Moreover, in the present scenario, there is the urgency because of the 'Affordable Housing for All by 2022', India's national housing goal.
- (ii) The ICT (Infotech) initiatives of KGB have been commendable over the years and it strive for more effective use of ICT for digital financial inclusion. KGC could garner global recognition for its efforts (like, award for Financial Inclusion), it should continue with its efforts more vigorously in the future. The 'Going Digital' drive of KGB can help more meaningful financial inclusion of the rural masses, rural development and women empowerment. KGB's digital initiatives augers



well with the *Digital India* drive of the Govt. of India (GOI) and the efforts of the Govt. of Kerala (GOK) to transform Kerala into an emerging Knowledge Economy or a Knowledge Society in the world. ICT ensures high quality services at low costs, better productivity and productivity.

To sum up, it may be pointed out that the efforts of KGB in rural finance in general and housing finance in particular needs to be scaled so as to help achieve the national housing priorities and goals. KGB's digital initiatives too need scaling up. Last, but not the least, KGB's efforts towards scaling up advances and ICT-integration must strictly follow due diligence, so that the asset quality can be ensured.

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