

## **TRADITIONAL INTEREST FREE SOCIAL BANKING OF MALABAR**

### **A study of the Panampayattu system**

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*Abstract: Panampayattu has been an indigenous system of economic cooperation still in practice among people of Malabar, the northern part of Kerala, India. Though the system had a vital role in improving the standard of living of people of this area till recently now it is facing a setback. The study attempts to unravel the virtuous aspects of the system as a saving mechanism highly suitable to the daily wage earning community. The system can be considered a manifestation of the high level of social capital among people and the traditional form of interest free banking of this area. It can also be taken as a form of indigenous micro finance without debt trap and exploitation.*

*Key words: Indigenous finance, micro finance, Rural finance, Panampayattu, Kurikkallyanam, Social capital, Interest free banking, and Social banking.*

**Introduction:** People of Malabar have been endowed with a variety of unique means of economic cooperation that principally rely on social collateral. Social network based financial mutual help has been an integral part of life in these areas for centuries. References about the existence of the system of 'Kuri' as early as in 19<sup>th</sup> century can be seen in 'Malabar' by William Logan. Logan describes it as a system followed by 'the mutual loan society' in order to raise a considerable sum of money or food grains to one of its members (Logan, William (1887). Panampayattu, a form of interest free social banking, has been one such thrift cum investment system locally developed and logically incorporated into the local social system in many parts of Malabar. No accurate information about the origin of Panampayattu is available. Herman Gun

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dart (1872), in his Malayalam- English dictionary, indicates the existence of the system by giving the meaning ‘transacting money’ for the term ‘Payattu’ (Rajesh,kp,2017). Traditionally, it was widely used as a system of mobilising the gift of money presented to the groom at the time of his marriage in order to enable him meet the payment he had to make to the bride’s house while receiving his bride in marriage.

## **Review of Literature**

Ramzan, Shaheed, (2008) makes a detailed study of Kurikkallyanam (Panampayattu) and opines that the system originated in Malabar due to the economic compulsions that arises on occasions like marriage of girl children, house construction etc. He finds that the system has been far more effective than any developmental programmes of the Government in enabling people meet their various economic requirements. Yasir (2003), considers Kurikkallyanam as a pointer of rural integrity of Malabar as it reflects the cooperation among people residing in a locality. Panampayattu can be understood as one of the age old remains of the culture of tolerance, coexistence, mutual help and cooperation that exist among village communities of Malabar across the frontiers of religion and other man made barriers. Raghu and Sasikumar (1995) reveals the importance of the system in the economic and social life of the people in this area and describes it as an indigenous financial system as important as formal financial institutions. Abdulla v (2001) describes the effectiveness this form of economic cooperation in enabling fund raising by rural population. Rajesh KP (2017) makes a descriptive study of Panampayattu system. Though a number of studies have been made on the Pampayattu system, none of them makes a detailed look in to the recent decline facing the system and hence, this study is being attempted.

## **The Panampayattu (Kurikkalyanam, Panappayattu) System**

In a sense ‘Panampayattu’ (PP) is a mutual rotating credit system in which each person has his own PP network. Here, each member of one’s PP network advances a small amount to him on the day of his Panampayattu. The person will return the same along with his advance (usually equal to the amount advanced to him) to each of his clients on the respective occasions of each one’s Panampayattu. The amount advanced as per current standards ranges from Rs.100/ to a few hundreds or thousands depending upon the financial strength and willingness of the member. It

has been used as a major avenue of raising indigenous finance for meeting domestic financial needs of families in this area till recently.

A person constructs his Panampayattu network by gaining 'credit slips' from the clients (Pullies/Kutties) he chooses, by way of making advances to them on the occasion of their PP. After constructing a sufficiently large network of such clients, and when he encounters with some requirement of money, he conducts his Panampayattu. He invites his clients for his PP by means of a printed card. The venue (a tea shop or a Panampayattu hall) is an easily accessible place in the market.

PP is conducted usually in the evenings and the invitees are served hospitably. The clients are to participate without fail and the expected turnover is almost double the original investment. Some new clients may join the network and some old ones may exit. Those who fail to attend, settle their obligation on the following day with an apology. Failure to reciprocate is a shame and blot on creditworthiness and social status. Those who do not pay the dues are identified and asked to settle the dues. Those who are not willing to comply are avoided from future deals. However, inability to reciprocate due to contingencies is excused by the creditors. Thus, PP has been a form of indigenous finance with human face.

After one's Panampayattu, it is his turn to reciprocate to his clients. The size of PP network, usually hundred to a few hundreds, depends on the social and economic status of the individual. Most members are normally local residents and PPs are conducted during seasons of stable income. As coincidence of PPs leads to low proceeds, people fix the dates of PP only after due consultation.

PP became most vibrant during the latter part of the twentieth century growing in to a necessary part of every family's economic life. 'Panampayattu halls' fully devoted for conduct of PP was seen in most market places in the area. But most of these halls now remain unoccupied as PP has become a rare event in many parts of Malabar.

### **Panampayattu and Social Capital**

Social capital is the ability of the members of a society to cooperate for productive outcomes. The Panampayattu system can be understood as the manifestation of a high degree of

social capital prevailed in the community for a long time. It directly reflects the propensity of the population of this area to cooperate and share what they have, in favour of another for making life better. Though the system was limited among men of enough economic and social status initially, it grew in to one that incorporated all social and income classes and enabled creation of cross cutting ties in the society particularly during the period of educational, social and economic emancipation of the poor in the latter decades of twentieth century. PP has been the fruit and the seed of social capital in the area.

The strength of PP network of an individual closely reflected his stock of social capital and the amount that he could mobilize depended on the volume of trust and creditworthiness he was able to mobilize in the society. Social collateral has been the basis of the system. Perhaps, it might be the form of social collateral based micro credit system original to the area.

### **Panampayattu and modern Micro Credit**

The Modern micro credit system developed by Dr. Muhammed Yunus in Bangladesh has received wide applaud and acceptance all over the world. Under the system the lender creates a group of small borrowers (mostly women) of similar social and economic status. The group is made responsible for monitoring and ensuring prompt repayment by each member of the group. The arrangement minimises incurrence of bad debts due to peer pressure for prompt repayment. The system has been effective in providing necessary credit information to the institutional lenders as the group members belonged to the same locality and are mostly close associates. The cost of lending operations is lower as the loans are granted to the group in bigger sums to be apportioned among members. The system has been highly effective in facilitating flow of institutional credit to the hitherto credit unworthy segment constituting majority of the world population. It has been the foundation of many women empowerment initiatives undertaken by Governments and Nongovernmental organisations including the Kudumbashree of Kerala. It has been instrumental in economic and social development of the poor. It has also contributed to entrepreneurship development among women.

As a commercial endeavour of profit seeking lenders, it has also been an instrument for exploitation of the poor by unscrupulous businessmen. Incidences of charging exorbitant rates of interest and other dishonest practices including misappropriation of funds are reported

frequently. As most poor women lack financial literacy and are ignorant of the fraudulent practices, they are more vulnerable to cheating and often become liable to pay even the amount not borrowed by them. Many such incidences were recently reported even in Kerala, known for its higher literacy rates.

Panampayattu existed among people of Malabar as a means of raising finance for community members during times of major financial requirements including marriage, house construction, self employment, emigration etc. As earning members of family, men enrol PP during the initial years of their earning life. The amount raised is considerable, somewhat near to two - three year's disposable income of the member. The money is fully raised on social collateral. The money need to be paid only in small instalments along with savings for future PP to be conducted. All members benefit from holding gains and no interest calculations and exploitations on that account are involved. It has been the gift of the community. Unproductive savings in the hands of community members are pooled in favour of the needy to enable productive outcomes. Its base is the altruistic wilful cooperation of the community rather than economic interests of members. There is no lender with a profit motive, no commercial interests and hence no one to promote it.

### **Panampayattu and Interest Free Banking**

PP can be considered a form of interest free indigenous banking developed in Malabar. An important factor behind the popularity of the system in the area can be the dominance of a segment of the population who believes in Islam and considers interest as a sin to be avoided. Even today PP is active in rural areas dominated by Muslim population. Instances of mobilising unbelievably big sums by some wealthy individuals recently in rural areas were reported while conducting survey for this study.

### **The research problem**

Panampayattu has been a unique mutual credit and saving system that prevailed in many parts of Malabar for centuries. However, in recent years, the system has been facing a sudden decline in most of the areas. A system that has been an integral part of the economic and social life of the people of this area is about to end. In this context, this study is conducted to gain more insight in

to the perception of people regarding the economic and social implications of Panampayattu, its importance in economic life of people and the factors behind its decline.

### **Significance of the study**

As it happens everywhere, during the past few decades Kerala has also been undergoing an array of rapid changes fuelled by the emergence of an economically and technically empowered generation who are indifferent to many of the social systems that enabled their parents bring them up. Kerala, often, quoted to have gained high living standards, also rank the highest in wage rates, per head alcohol consumption, lottery gambling and suicide rates. If properly modified to suit the era, Panampayattu can be a system that can foster financial discipline and prudent income management particularly useful to wage earning rural population. For this a detailed understanding of its limitations and other factors behind its decline is necessary. This paper analyses the social and economic implications of Panampayattu in the life of people who had participated in it.

### **Objectives of the study**

Panampayattu has many unique characteristics that make it highly deserving of survival. This paper is part of a broader study that examines the possibilities of its revival. The major objectives of the present paper are:

1. To examine the socio economic implications of Panampayattu as perceived by the people who participated in it.
2. To analyse the weaknesses of Panampayattu that may have contributed to its decline.

### **Methodology of the study**

The present study is designed as a descriptive one based on primary data.

### **Data**

The study is mainly based on primary data collected from respondents chosen from various parts of Kozhikode district where the system has been most vibrant till recently. The data were collected through face to face interview using a structured interview schedule prepared by the

researcher considering all aspects of the study. The respondents were also asked to open up their mind and some of the ideas conveyed here is the result of this unstructured talk.

## **Sample**

The data were collected from 176 respondents selected from various parts of Kozhikode district. Though convenience has been an important consideration while choosing respondents, as far as possible, care has been taken to include people from all walks of life to the sample.

## **Data analysis**

The simple mathematical tool of percentage has been enough for most of the analysis as the responses has been truly convincing.

The study proceeds as follows: To enable a proper understanding of the responses, the profile of the respondents is described in part 1. Part II gives a detailed account of the implications of PP system in the social and economic life of people of the area and in part III an analysis of the limitations of PP is being done.

### **I. Profile of respondents**

The data was conducted from among people of Calicut district who has been participants in PP either at present or in the past. During the survey the researcher could not find even a single respondent aged below 30. Of the 176 respondents met, 112 (64%) were between 30 and 50 and 64 (36%) were above 50 years. It is indicative of the non popularity of the system among the youth. Men constitute 99% (174) of the sample with only two women (1%) who reported that they are continuing PP of their deceased husbands. Regarding education, 41 (23%) have primary education, 95 (54%) have high school education, 26 (15%) have intermediate education and 14 (8%) are graduates. Occupation wise 79 (45%) are labourers, 48 (27%) are farmers, 21 (12%) are self employed, 19 (11%) are Government servants and 9 (5%) were employed abroad. With respect to reported monthly income 55 (31%) earn below Rs. 10000, 61 (35%) earn between Rs. 10000 and 20000, 42 (24%) earn between Rs. 20000 and 30000 and 18 (10%) earn above Rs. 30000. Experience in PP is less than five years for 40 (23%), between five to 10 years for 62 (35%), and more than ten years for 74 (42%).

## **II. Economic and Social Utility of Panampayattu**

The economic and social implications of PP in a developing rural community can be understood in terms of the suitability and usefulness of it to the requirements and circumstances of the community. In this direction, the study considers the following important aspects of PP:

1. An analysis of the common characteristics of PP as a thrift and investment system embedded in social capital.
2. An analysis of the distinguishing benefits it can deliver to the community.
3. Peoples' perception of its nature, importance and usefulness in their life.

### **II.1. Characteristics of Panampayattu**

In an attempt to establish the most common characteristics of PP, the researcher discussed various aspects of it with the respondents from different parts of Kozhikode district and identified the following features of it:

1. Any individual with a small income can start Panampayattu. Usually people from an agricultural background or daily wage earners participate in it.
2. The amount invested depends on one's ability to save and it is flexible.
3. The system prevailed among men – who were usually the earning members of the family. Women are also found to participate in the absence of men.
4. An individual can construct his own network, select his clients and determine the number of members to be included.
5. Membership in the network is open.
6. The investor, through the judicious selection of clients, can influence the risk and return of his network.
7. It is a system of mutual credit where the need for interest calculations are obviated and each member, on an average, benefit almost equally from holding money. It has a built-in mechanism for offsetting the value of interest forgone while parting with one's money in favour of others by allowing him hold others' money of a more or less equivalent amount for about an equal period of time. It ensures that, on an average, all members are benefitted equally.

8. It is based on social collateral. No tangible security is needed for raising fund through Panampayattu and the proven credit worthiness and social status of the individual acts as collateral.
9. Though Panampayattu networks are independently created by individuals, it operates effectively only under the framework of social norms and practices evolved in the community. So the system is a gift of the community.
10. Entry to and exit from the network is fully as per the volition of the member. People preferred to keep the PP relationship unaffected even when personal relationships were in strain.
11. The system is founded on values like mutual trust, reciprocity and cooperation among members of the community which in turn is reinforced by it.

## **II. 2. Advantages of Panampayattu**

The system has been highly beneficial in the economic and social progress of the people of the area as it suited their ordinary village life. Almost all respondents had similar views regarding the virtues it offered to ordinary people. On the basis of the explorations made, the following benefits are found inherent in the system:

1. It enables savings and repayments on a daily basis and allows the member to save and repay as he earns. It is most beneficial to ordinary village life.
2. It facilitates speedy saving growth among members which they can invest or use for meeting various requirements. It creates a compulsion to save avoiding unnecessary leakage of income.
3. Money does not remain idle in the hands of members as it is quickly channelized into the hands of the needy. Small scattered savings, too small for immediate investment, are pooled together and made available to one of the members on each day of PP.
4. Opportunity for saving is readily available in the village within one's ordinary social circles promoting saving habit among ordinary villagers.
5. It strengthens social ties among people and enhances the propensity to co-operate.
6. It promotes financial discipline among people as failure to meet maturing obligations becomes a blot on their social status.

7. The amount that one owes to another under Panampayattu is not counted as a debt and its repayment cannot be demanded until he fails to repay on the appropriate occasion. It is considered as an element of mutual care and cooperation. In the event of death or other contingencies to one of the members, other members bear with the family and sometimes even the invitation letter is not served to the aggrieved family. At the same time, PP works as an informal insurance mechanism at the time of adversities.
8. It facilitates borrowing without signing an agreement. Here lender and borrower are equals - no application and no sanction – only wilful mutual cooperation.
9. The system facilitates creation of cross-cutting ties among different economic, religious and social classes.
10. The life of a network may extend over many decades as automatic succession from one to his heir normally takes place. It thus helps to maintain long period relationship among families.
11. The system facilitates the participation of the community in every important event in the life of community members and enables financing of it with a human face and altruism.

## II. 3. Perception of the nature and usefulness of Panampayattu

The nature of PP is best revealed when an enquiry is made in to the considerations behind the selection of members (Kutties) while constructing PP networks.

### II.3.1. Considerations in construction of a network

The researcher made an enquiry in to the factors considered by respondents while they chose their network members with a view to understand the nature of economic relationship implied in PP. The ranks assigned by respondents to various factors is summarised in table 1.

**Table: 1. Factors determining the choice of PP members**

| No | Factor                               | Total rank  | Average Rank | Rank |
|----|--------------------------------------|---|--------------|------|
| a. | Readiness to reciprocate             | 408   | 2.318        | I    |
| b. | Social / kinship relationships       | 445   | 2.528        | II   |
| c. | Ability to pay                       | 482   | 2.738        | III  |
| d. | Financial needs of the person        | 574   | 3.261        | IV   |
| e. | Social/economic Status of the person | 861   | 4.892        | V    |
| f. | Caste/religion                       | Many respondents refused to rank these factors as these are never considered by them. |              |      |
| g. | Political affiliation                |   |              |      |

Source: Survey Data.

The table shows that readiness to reciprocate has been the primary consideration followed by existing social connections and ability to pay. It is important to note that the financial needs of the payee ranked higher than his economic and social status. Thus, reciprocity based mutual cooperation protecting the interest of both the sides has been the basis of the system. Negation of caste, religious and political considerations by many of the respondents reiterate the altruistic nature of the system rising above the divisive walls of traditional social order.

### II. 3. 2. Importance of Panampayattu

The researcher made an attempt to understand the importance of PP in the economic life of respondents. The responses are shown in table 2.

**Table: 2. Importance of PP in the economic life of respondents**

| Question   | Unimportant | Important | Very Important | Total      |
|--|-------------|-----------|----------------|------------|
| How important has been PP in your economic life? | 13 (08%)    | 87 (49%)  | 76 (43%)       | 176 (100%) |

Source: Primary Data.

While interpreting this table it should be noted that the data has been collected during a period when PP has become unattractive and is approaching its exit (see table 3) from the economic life of people. Still, the responses reveal that PP has been highly important in the economic life of a vast majority of the population in the area.

An analysis of the role and usefulness of PP has also been made. The Responses show that PP has been acclaimed as having been most helpful in mobilising funds for the marriage of self and relatives to 117 (66%); construction of house to 104 (59%); Medical treatment of self and family to 7 (4%), for purchase of vehicle to 22 (12%); finding self employment to 14 (8%) and migration to gulf to 5(3%).

### Limitations of Panampayattu system

The enquiry, however, reveals certain serious limitations of PP as a saving and investment avenue. The most striking among them are:

1. It solely depends on social collateral to ensure timely repayment.
2. As membership is open, any individual including those having low credit standing can become member to one's network without his consent. Entry of some such members may make the network unattractive after some time.
3. PP lacks dependability as a source of fund as the amount realisable may vary.
4. The network needs a long period to mature – typically 3 years. Also it takes at least some weeks to raise fund.
5. Daily settlement of dues may become difficult and costly due to lack of mobility particularly when the network size increases.
6. When income declines, PP becomes a burden and creates mental stress to people.

It can be seen that some of these limitations are so serious enough to have contributed to the decline of PP during the last few decades.

## **Conclusion**

Panampayattu has been a system of indigenous banking offered by the community to enable its members to cater to the pressing needs of an entire life cycle. The system is unique in terms of its suitability to the circumstances of village communities. It has been in practice for a long time and has attained greater significance in the social and economic life of the region. Its sole dependence on social collateral and the value of altruistic cooperation can be a reason behind its decline in recent years. Modification, to suit to the changing circumstances of the society may enable us maintain it longer.

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