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REGIONAL RURAL BANKS IN INDIA – AN ANALYSIS

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ABSTRACT

Regional Rural Banks play a vital role in the agriculture and rural development of India. The RRBs have deeper inroads to the rural areas of India through their huge network. The success of rural credit in India largely depends on their financial strength. RRBs are key financing institutions at the rural level, which shoulder the responsibility of meeting credit needs of different segments of rural population. At present, most of the regional rural banks are facing the problems of overdue, recovery, nonperforming assets and other problems. Therefore, it is necessary to study financial performance of RRBs in India. This paper attempts to analyze the financial performance of RRBs in India during the period 2006-07 to 2014-2015. The study is based on secondary data collected from annual reports of NABARD and RBI. The performance of RRBs is analysed in terms of Key Performance Indicators such as growth of number of banks, branches, deposits, loans, investments and recovery. This diagnostic and exploratory study, based exclusively on secondary data, finds and concludes that performance of RRBs has significantly improved in recent years. The results of the analysis indicated that though the number of RRBs has come down, the number of branches, districts covered increased appreciably over the period 2006-07 to 2014-15. The study also revealed that borrowings, loans, investments have increased at statistically significant levels. While the accumulated losses have come down, the profits before taxes soared at significant levels. The study concludes that there is a need to control the menace of growing NPAs and to improve the recovery performance. Towards this end, the study offers certain practicable suggestions.

Keywords: Regional Rural Banks, Growth Rate and NABARD**.**

INTRODUCTION

The institution of Regional Rural Banks (RRBs) was created to meet the excess demand for institutional credit in the rural areas, particularly from the economically and socially marginalized sections. The Banking Commission (1972) recommended to establish an alternative institution for rural credit and ultimately Government of India established Regional Rural Banks as a separate institution basically for rural credit on the basis of the recommendations of the Working Group under the Chairmanship of M. Narasimhan. In order to provide access to low-cost banking facilities to the poor, the Narasimhan Working Group (1975) proposed the establishment of a new set of banks, subsequently, the Regional Rural Banks were setup through the promulgation of RRB Act of 1976. The RRBs Act, 1976 succinctly sums up this overall vision to sub-serve both the developmental and the redistributive objectives. The RRBs 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". Their financial equity is held by the Central Government, Concerned State Government and the Sponsor Bank in the proportion of 50:15:35 respectively. The Central government initiated the process of amalgamating RRBs in September 2005. At the end of March 2006, RRBs are 196 branches, the number came down to 133 and farther to 56 by the end of March 2015.

REVIEW OF LITERATURE

The literature available in the working and performance of RRBs in India is a little limited. The literature obtained by investigators in the form of reports of various committees, commissions and working groups established by the Union Government, NABARD and Reserve Bank of India, the research studies, articles of researchers, bank officials, economists and the comments of economic analysts and news is briefly reviewed in this part.

The ***Kelkar Committee (1986)*** made comprehensive recommendations covering both the organizational and operational aspects. Several of these were incorporated as amendments to the RRB Act, 1976 such as

- ❖ Enhancement of authorized capital of RRBs from Rs. 1 crore to Rs. 5 crore and paid-up share capital from Rs. 25 lakh to Rs. 1 crore;

- ❖ Appointment of Chairman of RRBs by the sponsor bank concern in consultation with NABARD;
- ❖ provision of assistance to RRBs in greater measure by sponsor banks in training RRB staff and giving financial assistance to RRBs in the first five years of their existence;
- ❖ Provision for amalgamation of RRBs in consultation with all the parties concern;
- ❖ Empowering the sponsor banks to monitor the progress of RRBs and also to arrange for their inspection, internal audit etc.

NABARD (1986) published "A study on RRBs viability", which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that RRBs incurred losses due to defects in their systems as such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in the infrastructure facilities and opening of branches by commercial banks in such areas where RRBs were already in function.

Khusro Committee (1989) argued that these banks have no justifiable cause for continuance and recommended their mergers with sponsor banks. The Committee was of the view that "the weaknesses of RRBs are endemic to the system and non-viability is built into it, and the only option was to merge the RRBs with the sponsor banks. The objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions."

Narasimhan Committee (1991) stressed the poor financial health of the RRBs to the exclusion of every other performance indicator. 172 of the 196 RRBs were recorded unprofitable with an aggregate loan recovery performance of 40.8 percent. (June 1993). The low equity base of these banks (paid up capital of Rs. 25 lakh) didn't cover for the loan losses of most RRBs. In the case of a few RRBs, there had also been an erosion of public deposits, besides capital. In order to impart viability to the operations of RRBs, the Narasimhan Committee suggested that the RRBs should be permitted to engage in all types of banking business and should not be forced to restrict their operations to the target groups, a proposal which was readily accepted. This recommendation marked a major turning point in the functioning of RRBs.

The financial ratio approach has been widely used by the researchers and working groups/committees to analyze the performance of RRBs. Most of the studies on the performance evaluation of RRBs concentrated on the banks in particular state/region. For instance: Singh (1992) analyzed the performance of RRBs in Punjab; Prasad (2003) evaluated the performance of RRBs in India; Pati (2005) in the north-east region. The study of Bagchi and Hadi (2006) concentrated on the performance of regional rural banks in West Bengal. Few studies also exist in the literature which concentrated on the efficiency of a single regional rural bank.

OBJECTIVES OF THE STUDY

The following are the specific objectives of the study

i. To evaluate progress of the RRBs during 2006-07 to 2014-15.

ii. To study the growth-pattern of Regional Rural Banks in India.

iii. To measure financial performance of Regional Rural Banks in India in terms of key performance indicators.

HYPOTHSES OF THE STUDY

i. The RRBs in India have made a substantial quantitative progress.
ii. The financial progress of RRBs has been found to be highly impressive.
iii. The macro performance of RRBs has been significant.

Sources of Data

The present study is diagnostic and exploratory in nature and makes use of secondary data. The study is confined only to the specific areas like number of branches, district coverage, deposits mobilized, credits and investments made by the Indian Regional Rural Banks (RRBs) for the 9 years period starting from 2006-07 to the year 2014-15. The data was mainly collected, compiled and calculated from annual reports of the NABARD and RBI. Other related information was also collected from journals, conference proceedings of various conferences and websites of the offices concern.

RESEARCH METHODOLOGY

The financial performance of the RRBs in India has been analyzed with the help of key performance indicators. The year 2014-2015 was taken as the current year and year 2013-2014 was base year for the calculation of growth rate. Linear growth rate, LGR = $\frac{\hat{b}}{\bar{y}} X100$ has been used to analyse the growth performance. The value $\hat{b}$ is the regression coefficient in the linear equation Y=a+bt. The values $\hat{a}$ and $\hat{b}$ are estimated using Ordinary Least Squares (OLS) method.

Results and Discussions

It could be observed from the table that the number of RRBs is on decline over the period. Between 2006-07 and 2014-15, the number of RRBs dwindled from 96 to 56 registering a negative growth of -5.67 per cent per annum. Conversely, the number of branches of RRBs has increased from 14,526 to 20,056 during the same period registering a modest growth of 3.97 per cent per annum. Thus the amalgamated RRBs are able to expand their branch network to hither to unbanked rural areas. The RRBs are also able to bring in more number of districts under its purview. As could be seen from the table, the number of districts covered soared from 534 to 644 during the same period. The average annual growth rate, however, was paltry 1.69 per cent per annum.

The sources of funds to RRBs emanate from own resources, deposits from public, borrowings from NABARD, sponsor banks and other sources including SIDBI and National Housing Bank (NHB). The deposits of the RRBs increased from Rs.83,144 crores to Rs.2,71,329 crores registering significant growth of 13.49 per cent during the period. However, the borrowings of the RRBs soared up at the highest rate of 21.74 per cent during the period under study. The deposits and borrowed funds are deployed towards providing loans to the public and in making investments. As could be observed from the table, the investments of the RRBs rose from Rs. 45,666 crores to the peak level of Rs.1,39,631 crores during 2013-14 but decelerated to Rs. 1,06,780 crores in the next year, 2014-15. Overall, the investments registered an average annual Linear Growth of 11.64 per cent during the study period. The poor loan recovery performance of RRBs could be observed from the high levels of loans outstanding that went up from Rs.48,493 crores to Rs. 1,84,843 crores between 2006-07 and 2014-15 registering a magnificent growth of 15.77 per cent per annum during the period under study.

Table-1

Key Performance Indicators of RRBs in India

Year	No. of RRBs	No. of Branches	Districts covered	Deposit (Rs. in crore)	Borrowings (Rs. in crore)	Investments (Rs. in crore)	Gross Loan (O/s) (Rs. in crore)	Accumulated Losses (Rs. in crore)	Profit (Before Tax) (Rs. in crore)	Net NPA %	Recovery %
2006-07	96	14526	534	83143.55	9775.80	45666.14	48492.59	2759.49	926.40	3.46	79.80
2007-08	91	14761	594	99093.46	11494.00	48559.54	58984.27	2624.22	1383.68	3.19	80.84
2008-09	86	15158	617	120184.46	12733.80	62629.45	67858.48	2325.59	1859.36	1.68	77.76
2009-10	82	15480	618	145035.00	18770.00	79379.16	82819.10	1775.06	2514.83	1.80	80.09
2010-11	82	16001	620	166232.00	26490.81	86510.44	98917.43	1532.39	2420.75	2.05	81.18
2011-12	82	16001	620	166623.20	26490.80	86510.44	98917.43	1532.39	2420.75	3.75	81.18
2012-13	82	16914	635	187351.37	30271.71	89145.79	120550.66	1104.85	2469.18	4.14	82.63
2013-14	57	19082	642	239494.00	50230.00	139631.00	159406.00	948.00	2694.00	6.09	81.90
2014-15	56	20059	644	271329.00	58824.00	106780.00	184843.00	1069.00	2781.00	5.72	79.47
LGR	-5.67	3.97	1.69	13.49	21.74	11.64	15.77	-13.85	9.61	11.58	0.28
t-cal	5.2	6.51	4.19	12.38	7.4	5.52	9.27	10.08	5.29	2.61	1.16
R^2	0.79	0.86	0.72	0.96	0.89	0.81	0.93	0.94	0.8	0.49	0.16

Source: Annual Reports of NABARD and RBI 2006-2014

Nevertheless, the losses of RRBs are on the decline. As could be noticed from the table, the losses incurred by RRBs have been declining steadily from Rs. 2,759 crores to Rs. 1,069 crores between 2006-07 and 2014-15 registering a negative growth of -13.85 per cent per annum. This clearly indicated the fact that the measures towards rationalization and amalgamation of RRBs have started yielding fruitful results and as a result the performance of RRBs has been improving over the years.

Another important indicator of the performance of RRBs is profit before tax. The data and the information provided in the table clearly reveal that the profits of the RRBs have been gradually improving over the years. In absolute terms, the profits before tax improved from Rs.926 crores in 2006-07 to Rs. 2781 crores registering a near double digit growth of 9.61 per cent per annum. Though the proportion of Non Performing Assets (NPA %) has been brought down from 3.46 per cent to the lowest level of 1.68 per cent between 2006-07 and 2008-09, its ugly head has once again been rising since 2009-10 to reach the peak level of 6.09 per cent in 2013-14, though it has marginally declined to 5.72 per cent in 2014-15. On the whole, the NPAs have increased by 11.58 per cent per annum during the period under study. The recovery percentage of loans sanctioned by RRBs has not been improved and it covers around 80 per cent during the period under study. Controlling NPAs and improving recovery percentage should be the twin goals of RRBs in the years to come.

PROBLEMS of RRBs

Although RRBs had a rapid expansion of branch network and increase in volume of business, these institutions went through a very difficult evolutionary process due to the following problems.

- The area of operations of RRBs is very limited.
- The portfolio of RRBs is confined only to the target group leading to high risk.
- Public perceive that RRBs are poor man’s bank and will have lackluster attitude.
- Since the branches are located at resource poor areas, the operations are non-viable leading to mounting losses.
- The RRBs heavily rely on sponsor banks for investment avenues with low returns. The RRBs however get step-motherly treatment from sponsor banks.
- The RRBs bear the burden of subsidy on government schemes and the rural customers also have inadequate knowledge over various schemes.

- The staff is unionized with low commitment towards improving profit and functional efficiency.
- The staff also has inadequate exposure to modern business strategies and skills to innovate products leading to limited portfolios.
- The RRBs do not have total independence in taking decisions. They depend on sponsor banks, GOI, NABARD and RBI for most decisions.
- The functioning of RRBs is hampered by inadequate staff due to an across the board ban on recruitment of staff.

SUGGESTIONS (RECOMMENDATIONS) FOR IMROVEMENT OF RRBs

The following suggestions are made for improving the performance of RRBs.

- ✓ Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.
- ✓ More branches should be opened in resourceful and remote areas of the country.
- ✓ Productivity can be improved by controlling the administrative costs and diversifying the portfolio of the banks.
- ✓ To participation cost, subsidy admissible to the borrowers should be adjusted at the end of the transaction for which loan is sanctioned and not in the beginning of loan.
- ✓ Government should take firm action against the defaulters of loan. Popular announcements like waiving of loans create lethargy on the part of the borrowers and hence, they should not be resorted to gain political mileage.
- ✓ The operating expenses of the RRBs should be kept as low as possible.
- ✓ The RRBs have to give due preference to the micro-credit scheme and encourage the formation of self help group.
- ✓ The group liability works in a better way than individual liability.
- ✓ A uniform pattern of interest rate structure should be devised for the rural financial agencies.
- ✓ The RRB must strengthen the credit administration by way of effective credit appraisal and monitor the progress of loans and their efficient recovery.
- ✓ The RRB may relax their procedure for lending to the borrowers in remote rural areas and hill areas.

CONCLUSION

To conclude, the amalgamation and rapid expansion of the network of RRBs has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRBs in branch expansion, deposit mobilization, rural development and credit deployment to weaker sections of the population in rural areas are appreciable. RRBs have successfully achieved their objectives like taking the banking to door steps of rural households particularly in banking deprived rural areas, providing easy and cheaper credit to weaker sections in rural areas who are dependent on private money lenders, encouraging rural savings for productive activities, generating employment in rural areas and bringing down the cost of purveying credit in rural areas. Thus RRBs are providing the strongest banking network.

However, the commercial viability of RRBs has been questioned due to their limited business flexibility, smaller size of loan & high risk in loan & advances. Rural banks need to remove lack of transparency in their operations which leads to unequal relationship between banker and customer. Banking staff should interact more with their customers to overcome this problem. Banks should open their branches in areas where customers are not able to avail banking facilities. In this competitive era, RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers, so that the institution of RRBs would be viable.

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