Impact of Transformation of Indian Regional Rural Banks-An Analytical Study

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Executive Summary
The institution of Regional Rural Banks (RRBs) set up in 26th September 1975 through the promulgation of RRB Act of 1976 to meet the excess demand for institutional credit in the rural areas, particularly among the weaker sections of the rural population, provide core banking facilities to small and marginal farmers, agricultural labourers, artisans, small entrepreneurs etc. Several measures were initiated by Government of India towards strengthening of RRBs and making them vibrant channels of credit delivery for rural masses. In 2005 on the recommendation of Dr Vyas Committee which was constituted in 2001, the first phase of consolidation, restructuring of Regional Rural Banks was done by amalgamating 196 Regional Rural Banks for improving their functioning to achieve economies of scale and to ensure better managerial control and to solve their problems of nonperforming assets, accumulated losses, overdue loans and advances and low recovery rate. Later on second phase started in October 2012 and RRBs were amalgamated to 57 as on 31 March 2014. An attempt has been made in this study, to analyze the trend of growth and development of RRBs as rural bankers to achieve their basic objectives and also the branch expansion, deposits, loans, investments and net profit has also been dealt with.

Keywords: Regional Rural Banks(RRBs), Indicators of performance, NABARD, Rural Credit

INTRODUCTION
Genesis of rural Banking in India dates or laid back to the beginning of 20th century in India but RRBs on modern lines were set up after the nationalization of major commercial banks in 1969 when emphasis shifted to providing more credit to weaker sections of the society. Regional Rural Banks as a result, were established with a view to develop the Indian rural economy and to create a supplementary channel to the 'Cooperative Credit Structure' with a view to enlarge institutional credit for the rural and agriculture sector. The RRBs mobilize deposits primarily from rural areas and create a strong channel for institutional credit to small and marginal farmers, agricultural labourers , rural artisans, small entrepreneurs and persons of small means as other segments of priority sector.

Dr V S Vyas committee constituted by RBI on “flow of credit to agriculture and related activities from the banking system” inspected the pertinence of RRBs in the rural credit system and recommended for making RRBs and NABARD more effective in meeting the desired goals, the consolidation of these banks and the first phase of consolidation process started in the year 2005. This amalgamation was initiated Sponsor Bank wise within a State and then second phase was across the Sponsor banks within a State in October 2012. The action of consolidation showed an improvement in functioning of these banks and indicated a hope for achieving economies of scale and better managerial control. As a result of amalgamation, number of the RRBs reduced from 196 to 57 as on 31 March 2014. The number of 14484 branches of RRBs in 2005 increased to 19082 as on 31 March 2014 giving appreciable growth rate and thus these Banks penetrated in every corner of the country and helped in the growth of rural India.

Objectives of Regional Rural Banks: RRBs, since transformation have reformed their objectives and they are now performing functions given below to fulfill them and achieve goals:

1. Providing banking facilities to small and marginal farmers, agricultural labourers, rural artisans and small entrepreneurs, cooperative societies, trade and commerce or industry and other productive activities within its operations in India with specific plan state wise.
2. Mobilizing the savings by various means of deposits by launching effective schemes in Rural India.
3. Providing ancillary banking services ie acceptance of insurance premium, remittance of funds etc. on the pattern of modern banking behaviour in rural India.
4. Developing the overall underdeveloped geographical areas of various underprivileged sections of the society.

Methodology
Considering the main objective of the study to examine the impact of transformation of Regional Rural Banks during 2005 to 2014 in India, it is confined to specific areas like number of branches, deposits mobilization, credits disbursement, net profit and also the investments made by them for the specified period. As the study is of descriptive in nature, secondary data have been used from the annual reports of NABARD. The growth rate is calculated by taking 2014 as current year and 2013 as base year with the formula for calculating growth:
\[
\text{Growth} = \frac{\text{Value of Current year} - \text{Value of Base Year}}{\text{Base Year}}
\]

Indicators of Performance of RRBs
While tracing the growth performance of RRBs on the aspects mentioned above, the table below shows the performance and growth of Regional Rural Banks from the year 2005 to 2014. Graph 1 presents indicators of performance and graph 2 presents growth rate.

Table: Performance indicators of RRBs in India
(Fig: Rs in Crore)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of RRBs</td>
<td>196</td>
<td>133</td>
<td>96</td>
<td>91</td>
<td>86</td>
<td>82</td>
<td>82</td>
<td>82</td>
<td>64</td>
<td>57</td>
<td>--</td>
</tr>
<tr>
<td>No. of Branches</td>
<td>1448/4</td>
<td>1449/4</td>
<td>1452/0</td>
<td>1476/1</td>
<td>1523/5</td>
<td>1548/0</td>
<td>1593/8</td>
<td>1691/4</td>
<td>1785/6</td>
<td>1908/2</td>
<td>6.86</td>
</tr>
<tr>
<td>Profit/Loss</td>
<td>166/3</td>
<td>111/2</td>
<td>81/15</td>
<td>82/8</td>
<td>81/5</td>
<td>79/3</td>
<td>79/3</td>
<td>79/3</td>
<td>63/1</td>
<td>57/0</td>
<td>--</td>
</tr>
<tr>
<td>Making Deposits</td>
<td>6215/3</td>
<td>7132/8</td>
<td>8314/3.5</td>
<td>9909/3.4</td>
<td>1143/17</td>
<td>1450/35</td>
<td>1740/42</td>
<td>1873/51</td>
<td>2114/57</td>
<td>2395/04</td>
<td>13.26</td>
</tr>
<tr>
<td>Borrowings</td>
<td>5524/3</td>
<td>7302/5</td>
<td>9775/8</td>
<td>1149/4</td>
<td>1225/0</td>
<td>1877/0.1</td>
<td>2721/6.6</td>
<td>3027/1.7</td>
<td>3826/7</td>
<td>5120/8</td>
<td>33.81</td>
</tr>
<tr>
<td>Investments</td>
<td>3676/7.6</td>
<td>4118/2.4</td>
<td>4566/6.1</td>
<td>4855/9.5</td>
<td>5115/9</td>
<td>7937/9.2</td>
<td>9524/6</td>
<td>8914/5.7</td>
<td>1085/48</td>
<td>1105/14</td>
<td>1.81</td>
</tr>
<tr>
<td>Loans&amp;Advances</td>
<td>3287/0</td>
<td>3971/2.5</td>
<td>4849/2.5</td>
<td>5898/4.2</td>
<td>6584/0.8</td>
<td>8281/9.1</td>
<td>1010/39</td>
<td>1205/51</td>
<td>1398/37</td>
<td>1596/60</td>
<td>14.17</td>
</tr>
<tr>
<td>Loan Issued</td>
<td>2108/2.4</td>
<td>2542/6.9</td>
<td>3304/3.4</td>
<td>3858/1.9</td>
<td>4336/7.1</td>
<td>5607/9.2</td>
<td>7290/3</td>
<td>7854/6.5</td>
<td>1021/62</td>
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<tr>
<td>Net Profit</td>
<td>748.1/1</td>
<td>617.1/3</td>
<td>625.1/5</td>
<td>1328.11</td>
<td>1711.99</td>
<td>2509.18</td>
<td>3464.2</td>
<td>2443.41</td>
<td>2382/2833</td>
<td>18.93</td>
<td></td>
</tr>
<tr>
<td>Accumulated losses</td>
<td>2715.01</td>
<td>2636.85</td>
<td>2759.49</td>
<td>2624.22</td>
<td>2574/2574</td>
<td>1775.06</td>
<td>1366/8</td>
<td>1104/85</td>
<td>1011/7</td>
<td>903/10.74</td>
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</tr>
<tr>
<td>Recovery %</td>
<td>79.85</td>
<td>79.8</td>
<td>80.49</td>
<td>80.81</td>
<td>77.76</td>
<td>80.09</td>
<td>80.03</td>
<td>82.63</td>
<td>82.5/7</td>
<td>81.9</td>
<td>--</td>
</tr>
<tr>
<td>NPA to Loan o/s(%)</td>
<td>8.53</td>
<td>7.28</td>
<td>6.55</td>
<td>6.05</td>
<td>5.58</td>
<td>3.72</td>
<td>3.5</td>
<td>5.03</td>
<td>5.65</td>
<td>4.4</td>
<td>--</td>
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</tbody>
</table>

Source: Reports of NABARD
It emerges from the above table that:

1. Post amalgamation, the number of RRBs in the country as on 31 March 2014 stood at 57.
2. RRBs have achieved a tremendous growth in terms of number of branches as they increased to 19,082 covering 642 notified districts. The RRBs had opened 438 branches during 2013-14.
3. The aggregate deposits of RRBs registered a growth of 13 per cent, borrowings 34 percent, loans and advances (outstanding) 17 per cent and investments 2 per cent.
4. In 2014 all the 57 RRBs have earned profits as compared to the previous years.
5. The aggregate gross NPA of all RRB decreased from 5.65 % as on 31 March 2013 to 4.4% as on 31 March 2014.
As a strategy towards broader financial inclusion, the RRBs should start a branch expansion programme judiciously in unbanked areas. The regulator of these banks has now allocated 22,000 villages more to start up Ultra Small Branches (USBs) at places where opening of brick and mortar branch is not considered possible. These banks are now taking up proper steps in this regard.

Conclusion
Thus impact of amalgamation of RRBs in terms of certain definite parameters; branch expansion, deposits, loans, investments and net profit is growth oriented and its consolidation had an attempt on improvement of the functioning of RRBs, achieve economies of scale and to ensure better managerial control. The branches of RRBs increased and it helped in their growth process and improvement in the coverage of areas and masses, district wise and state wise in India. RRBs should now extend their services by adopting new banking technologies like ATMs and Internet Banking in the branches to achieve an overall significant improvement in branch expansion, deposits mobilization, net profit, loans disbursement and recovery, and investment.

References


