



PERFORMANCE EVALUATION OF REGIONAL RURAL BANKS IN INDIA

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Abstract

Rural Banking in India refers to a set up of financial institutions to provide agricultural and rural credit in rural areas for their economic development. The success of rural credit in India is largely depends on their financial strength. The main objective behind setting up of RRBs was to attain the rural development through the betterment of weaker section of the society. 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 2010-11 to 2015-16. The study is based on secondary data collected form annual reports of NABARD and RBI. Indicators Analysis such as number of banks and branches, deposits, loans, investments and growth rate index is followed in the present study..

In this paper an attempt is made to evaluate the performance of Regional Rural Banks in India through various parameters such as branch expansion, district coverage, deposit mobilization and advances etc.

Introduction:

Regional Rural Banks have been in existence for around three decades in the Indian financial scenario. Regional rural banks (RRBs) came into existence for improving the efficacy of rural credit delivery mechanism in India. With joint share holding by **Central Government (50%)**, **the concerned State Government (15%)** and **the sponsoring bank (35%)**, an effort was made to integrate commercial banking within the broad policy thrust towards social banking keeping in view the local peculiarities. Rural Banking in India refers to a set up of financial institutions in rural areas for economic development of rural population. There are three streams of such institutions. The cooperative banks which were established with the onset of 20th century, the commercial banks which were associated in rural banking from late sixties onwards; and the Regional Rural Banks, which were established in October 2, 1975. RRBs played a pivotal role in the economic development of the rural India. The RRB's have unique place in the multi agency approach applied to provide agricultural and rural credit in India. These banks were established under the Regional Rural Banks Act of 1976 with a view to developing the rural economy by financing for development of agriculture, trade, commerce,

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industry and other productive activities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural areas. RRBs are specially designed institutions run under the guidance of NABARD and the sponsor commercial banks, spread in rural areas with the close network of branches serving a various districts of the country. The main objective behind setting up of RRBs was to attain the rural development through the betterment of weaker section of the society. The novelty of rural credit aims at providing finance and other facilities in the development of agriculture and allied activities to renovate the rural economy. These institutions serve as supplement to the existing institutional credit infrastructure and also to reduce participation of informal credit agencies, especially the unscrupulous money lenders. The RRBs have become integral part of the rural credit delivery system and taking significant steps in attaining banking services and mobilizing the rural savings of the poor villagers even in small amounts and to inculcate in them for supporting production activities through refinancing. Over the years, the RRBs which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume as also contribution to the development of the rural economy. A remarkable feature of their performance over the past three decades has been the massive expansion of their retail network in rural areas. RRBs have a large branch network in the rural area forming around 43 per cent of the total rural branches . The rural orientation of RRBs is formidable with rural and semi-urban branches constituting over 97 per cent of their branch network. The growth in the branch network has enabled the RRBs to expand banking activities in the unbanked areas and mobilise rural savings. In this backdrop, this paper makes an effort to evaluate the performance of RRBs in India and offers suggestions to improve the performance of RRBs.

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.

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.

In the year 1989 for the first time, the conceptualization of the entire structure of Regional Rural Banks was challenged by the Agricultural Credit Review Committee (**Khusro Committee**), which 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.”

The **Committee on Financial Systems, 1991 (Narasimham Committee)** 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 lakhs) 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 Narasimham 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.

Dr. B.K. Jha (2008) found that the effective banking services helps to promote rural entrepreneurship and improve the picture of rural India.

Syed Ibrahim (2010) concluded that the performance of rural banks in India has significantly improved after amalgamation process which has been initiated by the Government of India.

Jayaramaiah et.al (2013) demonstrated that the overall development of the economy and poverty alleviation depends on the system of providing affordable credit by the financial institutions that stimulates sustainable economic growth through the supply of credit in general and to the rural sector in particular.

Kanika and Nancy (2013) pointed out that RRBs have successfully achieved the objectives of taking bank services to the door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section of the society.

Megha and Aparna Bhatia (2013) opined that the overall position of Regional Rural Banks in India has improved during the post amalgamation period, though the number of Regional Rural Banks has decreased.

Study by **Raghavendra and Chaya (2014)** reveals that credit borrowing, loan advances, branches, and credit deposit ratios continue to be unsatisfactory. RRBs are still hesitant to provide credit to small and marginalized farmers.

Development during the Year 2015-16

The Capital to risk weighted asset ratio of 56 RRBs as on 31 March 2015 ranged from 20.29 % (Chhattisgarh Rajya Gramin Bank) to 4.82 % (Nagaland Rural Bank). Four RRBs viz. Nagaland Rural Bank, Odisha Gramya Bank, Manipur Rural Bank and Ellaquai Dehati Bank had CRAR less than 9 % . During 2015–16, Govt. of India share of recapitalisation assistance of 3.50 crore was released to Manipur Rural Bank.

NABARD submitted a proposal to Govt. of India share to recapitalize two RRBs, viz. Nagaland Rural Bank (2.77 crore) and Ellaquai Dehati Bank (25.42 crore). The same was approved by GoI, involving their contribution of 1.39 crore, and 12.71 crore, respectively. Recapitalization assistance of 1.38 crore and 10.12 crore was released to these RRBs by GoI, on 31 March 2016. Remaining assistance of 2.595 crore in respect of Ellaquai Dehati Bank will be released during 2016–17.

RRB (Amendment) Act, 2015, was notified by Govt. of India share on 12 May 2015. The amendment has enhanced the authorised capital of RRBs to 2,000 crore and has enabled RRBs to raise capital from sources other than existing stakeholders.

Methodology

The study is based on secondary data and drawn from NABARD Annual Reports of various years and other books and journals. The study covers period of 2010 to 2016. Various statistical tools such as percentage, growth rate are used to evaluate the study.

OBJECTIVES OF THE STUDY

1. To measure financial performance of Regional Rural banks in India.
2. To analyze the key performance indicators of RRBs in India
3. To evaluate progress of the RRBs during 2010-11 to 2015-16.
4. To study the growth-pattern of Regional Rural Banks in India.
5. To make important suggestions to improve the working of RRBs.

SCOPE AND COVERAGE OF THE STUDY

1. It covers all RRBs working in India.



2. The study covers a specific period from 2010-11 to 2015-16 i.e. after globalization and amalgamation.

3. There is macro evaluation of performance of all the RRBs in India.

Area of the Study

The study is based on the performance of RRBs in India. Therefore, study covers all RRBs in India to the fulfilment of objectives of the study.

Results and Discussion

The basic principle of banking is to collect deposit and culminate savings habit of the people and also tapping of potential savings and marshalling them for strategic uses for productive purposes to mobilize the savings of the rural area. As a result, various schemes were launched over the years. The government has directed the banks to make all possible efforts to access to new deposits that can only expedite the pace of lending activities. On the other hand lending is crucial component of banking activity on while the survival of bank depends. Hence RRBs are expected to ensure effective mobilization and deposits and efficient utilization of such resources in productive lending and investment activities and thereby profitability of banks is enhanced.

It is also needed that RRBs should attain the objective of rural development by providing an equitable financial service to the weaker and financially deprived sections of the society. In this backdrop the present study evaluate the performance of RRBs.

RESEARCH METHODOLOGY

The financial performance of the RRBs in India has been analyzed with the help of key performance indicators. The year 2015-16 was taken as the current year and year 2014-15 was base year for the calculation of growth rate. Analytical Techniques Employed- Growth rate analysis was undertaken with a view to studying financial performance related to the RRBs. Growth rate is measured with the help of following formula-

$$\text{Growth Rate} = \frac{Y_t - Y_{t-1}}{Y_{t-1}}$$

Y_t = Current Year, y_{t-1} = Base Year.

RESEARCH DESIGN

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 6 years period starting from 2010-11 to the year 2015-16.

METHOD OF DATA COLLECTION

The present study is empirical in character based on the analytical method. The study is

mainly based on secondary data which is collected, compiled and calculated mainly from annual reports of the NABARD and RBI. Other related information collected from journals, conference proceedings and websites.

Key Performance Indicators and Growth of RRBs (Figures: - Rs. in Crore)

Parameters	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Growth
No. of RRBs	82	82	64	57	56	56	0.00%
Profit/Loss Making	75/7	26.33	63/1	57/0	51/5	50/6	-
No. of Branches	16001	16909	17861	19082	20024	20920	4.28%
Districts covered	620.00	638	635	642	644	644	0.00%
Staff	70153.00	74291	76246	80075	85549	88193	3.00%
Owned Fund	13838.92	16462.01	19445.00	22103	25083.17	27148.75	7.61%
Deposit	166232.34	186336.07	211488.00	239503	273017.81	313498.84	12.91%
Borrowings	26490.81	30288.84	38073.00	51208	59421.51	47888.48	-24.08%
Investments	86510.44	95974.93	108548.00	110514	162780.94	169591.97	4.02%
Gross Loan (0/s)	98917.43	116384.97	139652.00	159302	180955.05	206537.95	12.39%
Loan Issued	71724.19	82538.39	102161.71	120134	139192.36	164030.11	15.14%
CD Ratio	59.51	62.46	64.80	66.51	66.28	65.88	-0.61%
Accumulated Losses	1532.39	1332.57	1091.00	949.00	1072.15	1049.88	-2.12%
Profit (Before Tax)	2420.75	2549.40	3280.81	3848.59	4128.38	3606.02	-14.49%
Loss	71.32	28.87	2.07	0	176.02	188.23	6.49%
Tax Paid to Govt.	634.22	663.24	896.22	1154.57	1207.68	1398.75	13.66%
Gross NPA	3712.00	5859.12	8330.03	9656.63	11127.6	14042.17	20.76%
Gross NPA %	3.75	5.03	6.08	5.97	6.15	6.8	9.56%
Net NPA Amount	1941.32	2272.29	4622.00	4964.00	6192.56	8256.54	25.00%
Net NPA %	2.05	2.98	3.37	3.11	3.64	4.23	13.95%
Recovery %	81.18	81.60	81.17	81.89	79.5	82.55	3.69%
Net Worth	12306.53	15129.44	18354.78	21199.62	24011.03	26098.89	8.00%
Branch Productivity	16.57	17.90	19.52	20.9	22.67	24.86	8.81%
Staff Productivity	3.78	4.07	4.57	4.98	5.31	5.89	9.85%

OBSERVATION OF THE STUDY

Growth and Coverage of Regional Rural Banks in India: Number of RRBs and their branch network plays a significant role in improving the performance of RRBs. Bank branch is considered as one of the most important channel of the bank and generally the most preferred channel of customer. Hence it is needed to make an effort by the banks to expand their branch network to provide an equal opportunity to all the users of bank services.



The significant observation is the number of RRBs registered continuous declining trend from 82 (2010) to 56 (2016) indicating their negative growth. This phenomenon shall be attributed to the policy measures initiated by the Government of India towards amalgamation of RRBs in sponsored banks at state level in order to give operational freedom and to improve their financial performance. For instance by March 2010, RRBs of the same sponsor banks within a State were amalgamated bringing down their number from 196 to 82. In the second and ongoing phase, starting from October 2012, geographically contiguous RRBs within a State under different sponsor banks are being amalgamated to have just one RRB in medium-sized and two/three RRBs in large states. During the year 2013- 14, 13 RRBs have been amalgamated into 6 new RRBs in 5 States (Chhattisgarh, Uttar Pradesh, Kerala, Karnataka and Haryana). With this, the effective number of RRBs as on 31st March, 2016 stands at 56 playing a significant role in developing agriculture and rural economy.

Sources of Funds

The sources of funds of RRBs comprise of owned fund, deposits, borrowings from NABARD, Sponsor Banks and other sources including SIDBI and National Housing Bank.

1. Owned Funds

The owned funds of RRBs comprising of share capital, share capital deposits received from the shareholders and the reserves stood at 27148.75 crore as on 31 March 2016 as against 25083.17 crore as on 31 March 2015; registering a growth of 7.61%. The increase in owned funds to the tune of 2065.58 crore was mainly on account of accretion to reserves by the profit making RRBs.

2. Deposits

Deposit Mobilization is one of the crucial function of RRBs. Continuous and adequate amount of deposit mobilization will ensure the banks to discharge their function of lending and investment on which the prosperity of the bank depends. The bank should design proper deposit mobilization strategy which is the primary source of lending activities of the bank. Deposits of RRBs increased from 273017.81(2015) crore to 313498.84 (2016)crore during the year registering growth rate of 12.91%.

3. Borrowings

Borrowings of RRBs decreased from 59421.51 crore as on 31 March 2015 to 47888.48 crore as on 31 March 2016 registering an decrease of 24.08% . Borrowings viz-a-viz the gross loan outstanding constituted 23.18% as against 32.83% in the previous year. Banks are using their own resources and having less dependence on borrowings from external sources.

State-wise Spread of Regional Rural Banks:

RRBs are expected to ensure that the targeted rural unbanked location receives the needed credit. Hence it is required an even expansion of the activities of credit over different areas and income strata of the population by opening requisite number of branches in unbanked areas. The information relating to State-wise Spread of Regional Rural Banks and their Network and Coverage reveals that there is 4.28% increase in branches

Six states (Uttar Pradesh, Andhra Pradesh, Karnataka Bihar, Madhya Pradesh, Rajasthan) are enjoying the lions share with highest number of RRBs (more than 50%) covering more number of district with their widen branch network. Share of North Eastern states Manipur, Meghalaya, Mizoram Nagaland, Tripura, Arunachal Pradesh, is insignificant in terms of number of RRBs, number of branches covered, and district covered. The striking observation is that such states are having only one RRB with least number of branches, where as the state of Nagaland has only 10 branches. It is the clear indication of the imbalance growth of RRBs where the prominent backward areas have been given least priority in providing banking facilities. It reveals the failure of RRBs to cater the credit needs of the backward areas.

Lending Operations of RRBs

Credit disbursement is the key component of banking activity and it is the prime source of revenue to the bank. The level of loan and its growth is the reflection of the bank performance in terms of productivity and profitability of the banks. The sizeable growth in advances is the indication of better productivity and profitability of the bank funds. Hence, RRBs are required to design their appropriate lending policies. The information relating to advances of RRBs are shown in Table, Table reflects that the amount of advances is showing an increasing trend continuously over the study period. In absolute term it has increased from 98917.43 crores (2011) to 206537.95 crores showing a growth of 107620.52 crores. In terms of growth rate it is 12.39%. It is interesting to observe that the growth rate has registered an increasing trend.

Credit-Deposit Ratio of Regional Rural Banks

Credit Deposit ratio reflects the amount of core deposits utilized for lending operations. It is considered as an indicator of the bank participation in the development process. An increase in C/D ratio of RRBs enables to meet the credit requirement of the rural areas, so that the rate of growth in rural area is accelerated. Higher C/D ratio is the reflection of reduced inequality of income between the rich and poor. The ideal C/D ratio should be more than 60%. It is witnessed that the C/D ratio has registered constant increasing trend reflecting the consistent efforts made by the RRBs to augment the C/D ratio. It is also the indication that the RRBs have complied with the norm of maintaining C/D ratio of at least 60 %. The significant



observation is that, though the RRBs have achieved the target of minimum 60 % there is wide gap between the C/D ratio of RRBs and commercial banks (around 75%).

Profit Position of Regional Rural banks

RRBs are operating in a highly competitive environment and it is needed to earn sizeable amount of profit for their survival and growth. RRBs are the integral component and backbone of financial system. Hence, to build the strong and resilient financial system earning of profit by RRBs is crucial. Profit is indication of productive utilization of bank funds and reveals the operative efficiency of banks. Higher the amount of profit, greater is the operative efficiency and vice versa. The information relating to profitability of RRBs is given in Table indicates that the amount of profit of RRBs increased from 2420.75 crores (2011) to 3606.02 crores (2016) and the number of RRBs were reduced from 196 (2005) to 56 (2016). At present out of 56 RRBs only 6 are in loss. It is also observed that there is a decline in the number of RRBs over the years due to the process of amalgamation increase in the amount of profit of RRBs. This shall be inferred that the process of amalgamation has enabled the RRBs to improve their profitability position. From the above, it is evident that better operative utilization of the bank funds and increased efficiency of RRBs.

Per-branch and Staff Productivity of business of RRBs.

Branch productivity of RRBs has increased from 16.57 crore in 2010-11 to 24.86 crore in 2015-2016 recording an increase of 8.81% over last year. During the same period the per employee productivity of business has also increased from Rs.3.78 crore in 2010-11 to Rs. 5.89 crore in 2015-16 recording an increase of 9.85% over last year.

Recovery Performance of RRBs

The timely recovery of loan amount is a very essential for any bank and RRBs are not an exemption of this. It has been recorded that RRBs are performing well with respect to branch expansions, deposit mobilization and lending operations, but RRBs never record 100% recovery in any year since formation. Table shows an improvement in the recovery percentage during 2010-2016, from 81.18% as to 82.55% as on 2016. The recovery performance of RRBs gradually improved except 79.5% in 2015. It is clear from the table that RRBs are facing difficulties in recovering the loan amount; the recovery performance of RRBs is not that much satisfactory this can affect the overall performance of RRBs.

Summary

RRBs in India have unique place in the multi-agency approach applied to provide agricultural rural credit and have become integral part of rural economy. The present study makes an attempt to analyze the performance of RRBs on several parameters. The rapid development of

RRB has helped in reducing substantially the regional inequality in respect of banking facilities in India. The efforts made by RRB in branch expansion, deposit mobilization, rural development and credit deployment in weaker section of rural areas are appreciable. RRB successfully achieve its prime objectives like to take banking facilities and services to door steps particularly in banking deprived rural areas, to avail trouble-free and low cost credit to rural section who are dependent on private lenders, to encourage rural peoples for savings, to generate employment in rural areas and to bring down the cost of providing credit in rural areas. Thus in the present scenario RRBs have a strongest banking network in comparison to cooperatives banks and commercial banks. Government should take some more effective remedial steps to make Rural Banks viable. RRBs play an important role in rural areas with the objective of providing credit to small, marginal farmers & economically weaker section, for the development of agriculture, trade and industry. But still its commercial viability has been questioned due to its limited business flexibility, smaller size of loan, low percentage of loan recovery & high risk in loan & advances. Rural banks need to remove lack of transparency in their operation 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 digitization era RRBs have to concentrate on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

The study reveals that RRBs have taken initiation to expand their branch net work and extending their area of operations, it is witnessed that though the RRBs are successful in providing banking services to unbanked area there is an imbalance growth of RRBs where prominent backward area has been neglected in providing bank credit. In terms of deposits growth RRBs have failed to maintain the tempo of growth of performance of deposits and advances. It is found that RRBs are making consistent efforts to augment the Current deposit ratio and achieved the target of minimum 60 percent, but there is a wide gap of Current deposit ratio between RRBs (60%) and Commercial Banks (around 75%). Further the study reveals that more than 85% of RRBs are running on profitable line and the process of amalgamation has enabled the RRBs to improve their profitability position.

The study reveals that there is imbalance growth of RRBs where the prominent backward areas such as North Eastern states have given the least priority. Hence it is needed to open requisite number of branches in unbanked area that provides equal opportunities to all areas and income strata of population. It is observed that RRBs have failed to maintain the tempo of growth in deposits. Hence it is needed to design the appropriate deposit mobilization policy on



which the survival of RRBs depends. There is also a wide gap in Current deposit ratio between the RRBs and commercial banks. Hence it is recommended to make consistent efforts to augment the Current deposit ratio of RRBs on par with commercial banks.

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