

Regional Rural Banks - Recent Trends

**Dr. Ashok D Revankar, Principal , Smt. Indira Gandhi Govt. First Grade Women's College, Sagar*

***Dr. Mahaveera, Assistant Professor , Smt. Indira Gandhi Govt. First Grade Women's College, Sagar.*

In the Indian banking history, a new alternative, low cost, rural minded credit agency was created known as Regional Rural Banks within 6 years after the nationalization of 14 major commercial banks. These banks are popularly called as Grameena Banks. Regional Rural Banks are the offshoot of the recommendations made by the Banking Commission in its report submitted to the Indian Government in 1972. The commission in the report felt that the existing structure and functions of commercial banks and co-operative banks was unable to meet the full credit needs of rural India. Therefore, the commission thought proper and desirable to create an institution which would combine the strong points such as local feel of co-operative banks and financial strength as well as managerial competence enjoyed by the commercial banks.

With this background, a working group was appointed under the chairmanship of M Narasimham on 1st July 1975 and the group submitted its report on 30th July 1975. The group strongly recommended to set up the new type of institution to meet the above objective. The Government of India accepted the recommendations and Regional Rural Banks ordinance of 1975 was promulgated by the President of India on 26th September 1975 and subsequently this was replaced by the Regional Rural Banks Act on 9th February 1976.

RRBs came into existence on 2nd October 1975 with the establishment of 'Prathama Bank' in Muradabad district of Uttar Pradesh. In the first phase, in addition, other four banks were established one each in Bihar, Haryana, Rajasthan and West Bengal.

Objectives of the Study:

Regional Rural Banks, since 1975, have travelled a long way by experiencing so many ups and downs. These banks certainly played a crucial role in meeting the credit needs of rural mass by facing many challenges. Various reforms took place in the banking sector in general as well as Regional Rural Banks in particular. The RRBs have come across mainly four stage so far. The main objective of the study is to evaluate whether the Regional Rural Banks are able to fulfill the objectives of their set up or not.

The Specific Objectives are:

1. To study, review and analyze the functions of Regional Rural Banks pertaining to mobilization of deposits, advancing, NPA management, recovery and profitability etc.
2. To know how the RRBs have transformed since their inception.
3. To check whether RRBs remain as viable and sustainable financial institutions.
4. To assess the lending pattern of RRBs to priority sector and non-priority sector.

Methodology:

The present study is mainly depending on secondary data for its analysis. The required data are collected from various annual reports of NABARD, RBI and websites. The data collected were analyzed with the help of statistical techniques like averages, percentages and ratio methods.

Branch Expansion of Regional Rural Banks:

On the banking road map in India, a large number of unbanked remote villages now appear on the banking map after establishment of Regional Rural Banks. Government of India and other leading agencies like RBI, NABARD etc. took initiation to establish RRBs and their branch expansions. The number of Regional Rural Banks, number of districts covered and branch expansion from 1975 to 2020 are presented in Table – 1

Table – 1

Growth of RRBs (1975 – 2020)

Sl. No	Year	No. of RRBs	No. of Districts covered	No. of Branches
1	December - 1975	6	12	17
2	December - 1980	85	144	3,279
3	December - 1985	188	333	12,606
4	March - 1990	196	372	14,443
5	March - 1995	196	425	14,509
6	March - 2000	196	482	14,301
7	March - 2005	196	523	14,484
8	March - 2010	82	618	15,480
9	March - 2015	56	644	20,024
10	March - 2020	45	685	21,850

Source: Regional Rural Banks Kay Statistics –NABARD

It is evident from the Table – 1 that there has been continuous increase in branch expansion of RRBs from 1975 to 2020. There were only 17 branches at the end of the December 1975 and reached to 21,850 at the end of March 2020. Similarly, number of districts covered also increase from 12 to 685 during the same period. The number of RRBs also drastically raised from 6 in 1975 to 196 by the end of December 1987 within

a span of 12 years. Since then no new banks were added and the same status was maintained till 2005. In the year 2005-06 the process of amalgamation was started in the banking sector and as a result the number of RRBs came down to 133 by the end of March 2006. This reform process was continued and the number of RRBs drastically come down to 96 by the end of March 2007 and further reduced to 56 by the end of the March 2018. At the end of March 2020 there were 45 RRBs functioning in 685 districts of 26 states and 3 union territories of India except Goa and Sikkim. These 45 RRBs are operating through a network of 21,850 branches sponsored by different 15 commercial banks. With continuous branch expansions RRBs are reaching to the doorsteps of rural people and are playing a vital role in the process of financial inclusion

Performance of Gramina Banks:

The performance of gramina banks (RRBs) can be evaluated from different points, such as mobilization of deposits, lendings, recovery rate, level of NPA, profitability etc.

Deposits and Lendings:

By concentrating more on rural areas RRBs are able to provide loans and advances to the small and marginal farmers, rural artisans, landless labourers etc. and they did well pertaining to deposit mobilization. The deposit mobilization and loans / advances of RRBs is presented in Table – 2

Table – 2

Deposits and Loans / Advances

(Rs. In Crores)

Sl. No	Year	Deposits	Loans and Advances	C.D Ratio
1	December - 1975	0.20	0.10	50.00
2	December - 1980	199.83	243.38	121.79
3	December - 1985	1285.82	1407.67	109.48
4	March - 1990	4150.52	3554.04	85.63
5	March - 1995	11,150.01	6290.96	56.42
6	March - 2000	32,204.34	13,184.25	40.94
7	March - 2005	62,143.00	32,870.03	52.89
8	March - 2010	1,45,034.95	82,819.10	57.10
9	March - 2015	2,73,018.00	1,80,955.00	66.28
10	March - 2020	4,78,547.00	2,98,256.00	62.33

Source: Regional Rural Banks Key Statistics –NABARD

The above figures says that RRBs are able to mobilize the idle savings of the rural masses and to provide loans and advances to the weaker sections. In the initial years' deposit mobilization and lending was a bit slow but in subsequent years they achieved a lot in this respect. By the end of the December 1980, RRBs were able to mobilize deposits of Rs. 199.83 crores and reached to Rs. 1285.82 crores by the end of December 1985. This has reached to Rs. 11150.01 crores by the end of March 1995 by attaining the growth rate of nearly 9 fold in a decade. Further by the end of March 2005 it reached Rs. 62,143 crores, Rs. 2,73,018 crores by the end of the March 2015 and Rs. 4,78,547 crores by the end of the 31st March 2020.

It is also evident from the Table – 2 that, like deposits RRBs are able to provide loans and advances to the needy people in rural areas. The loans and advances by RRBs has reached Rs. 1407.67 crores by the end of December 1985, Rs. 6,290.96 crores by the end of March 1995 and Rs. 32,870.03 crores by the end of March 2005. It has reached Rs. 1,80,955 crores by the end of March 2015 and Rs. 2,98,256 crores by the end of 31st March 2020.

In early years C.D ratio of RRBs were good and crossed 100 percent mark up to 1986. It has gone up to 164.65 percent in 1978 which was the highest one and thereafter started declining continuously. Recently during the year 2019-20 C.D ratio of RRBs was 62.33 percent with total deposits of Rs. 4,78,547 crores as against loans and advances of Rs. 2,98,256 crores. The improvement in C.D ratio is needed from the view point of viability of RRBs.

Recovery Rate and NPA:

The recovery rate and NPA plays an important role in respect of profitability of RRBs. If we study these rates for the last 10 years, the recovery rates are declining and NPA percentage is increasing. This has to be improved.

Table – 3

Recovery Rate and NPA of RRBs

Sl. No	Year	Recovery Percentage	NPA Percentage
1	March 2011	81.18	3.75
2	March 2012	81.63	4.14
3	March 2013	81.20	6.00
4	March 2014	81.90	4.40
5	March 2015	79.50	6.15
6	March 2016	82.55	6.80
7	March 2017	81.00	8.07
8	March 2018	78.00	9.47
9	March 2019	76.07	10.80
10	March 2020	-	10.40

Source: Regional Rural Banks Kay Statistics –NABARD

During the last ten years the recovery rate of RRBs has been declined and the NPA percentage on the other hand increased. The percentage of NPA of RRBs by the end of March 2011 was 3.75 and by the end of March 2020 it raised to 10.40 percent. It is one of the main reasons that more number of RRBs are incurring losses. The recovery rates vary between 81.18 percent to 76.07 percent during the same period.

Profitability:

The profitability of RRBs was not good during the initial years. By the end of March 1991 out of 196 RRBs, only 44 were making profits, remaining 152 incurred losses and their accumulated losses were Rs. 369.36 crores. Government of India, RBI, NABARD initiated some action plans to improve the performance of RRBs and as the result, by the end of the March 2001 the number of profit making RRBs increased to 170 and created a reserves of Rs. 1,265 crores. The Table – 4 and 5 shows the profit and loss status of RRBs for the last 10 years.

Table – 4

Profit / Loss making of RRBs

Sl. No	Year	RRBs Which are Earning Profit	RRBs which are incurring Losses	Amount of Profit (Rs. In Crores)	Amount of Loss (Rs. In Crores)
1	March 2011	75	7	2420.75	71.32
2	March 2012	79	3	2469.18	25.77
3	March 2013	63	1	2275.00	2.07
4	March 2014	57	0	2833.00	0.00
5	March 2015	51	5	2921.00	176.00
6	March 2016	50	6	2206.00	188.00
7	March 2017	49	7	2604.00	387.00
8	March 2018	45	11	2506.00	1005.00
9	March 2019	39	14	1759.00	2411.00
10	March 2020	26	19	2203.00	4409.00

Source: Regional Rural Banks Key Statistics – NABARD

It is evident from the Table 4 and 5 that in the last decade, profitability of RRBs has improved from 2011 to 2018 but again from 2019 onwards this turned to negative. At the end of the March 2011 out of 82 RRBs, 75 earned a profit of Rs. 2,420.75 crores and only 7 incurred a loss of Rs. 71.32 crores. By the end of March 2020 out of 45 RRBs, 26 earned a profit of Rs. 2,203 crores, but the number of loss making RRBs increased to 19. These 19 RRBs put together incurred a loss of Rs. 4,409 crores, which is almost double that of the profits made by the 26 RRBs. Similarly, their accumulated losses also mounting up in the Balance Sheet. By the end of March 2020 total accumulated loss was Rs. 6,467 crores. But on the other hand RRBs are able

to create a sizable amount of reserves. By the end of March 2020 total reserves of RRBs raised to Rs. 26,817 crores.

Table - 5

RRBs with Accumulated Losses and Reserves

Sl. No	Year	RRBs with accumulated losses	Accumulated Losses (Rs. In Crores)	Reserves (Rs. In Crores)
1	March 2011	23	1532.39	9,565.58
2	March 2012	22	1140.85	11,135.19
3	March 2013	11	1091.00	13,247.00
4	March 2014	8	903.00	15,736.00
5	March 2015	8	1072.00	18,712.00
6	March 2016	8	1050.00	20,665.00
7	March 2017	8	1147.00	23,080.00
8	March 2018	11	1866.00	25,185.00
9	March 2019	11	2887.00	25,398.00
10	March 2020	17	6467.00	26,817.00

Source: Regional Rural Banks Key Statistics – NABARD

Recent Trends:

After studying the facts and figures pertaining to RRBs the following observations can be drawn.

- ❖ The Regional Rural Banks number has come down from 196 (which was the highest from 1987 to 2005) to 45 by the end of March 2020 covering 685 districts of 26 states and 3 union territories except Goa and Sikkim. But number of branches has increased from just 17 (1975) to 21,850 by the end of March 2020.
- ❖ As on 31.03.2020 total business of the RRBs stood at Rs. 7.77 lakh crore. The growth of business during 2019-20 is 8.6 percent as against growth of 9.5 percent in 2018-19. The deposits of RRBs at the end of March 2020 stood at Rs. 4,78,547 crores by showing a growth of 10.2 percent compared to the year 2019. Loans and advances for the same period have raised to Rs. 2,98,256 crores by showing a growth rate of 9.5 percent.
- ❖ Out of 45 RRBs, 26 earned profit of Rs. 2,203 crores and 19 RRBs incurred losses of Rs. 4,409 crores. As a result, RRBs incurred net loss of Rs. 2,206 crores during 2019-20. The accumulated losses of 17 RRBs reached to Rs. 6,467 crores by the end of March 2020.
- ❖ Since 2011 scheme of recapitalization of RRBs was implemented, so far RRBs received a financial support of Rs. 2,900 crores with 50 percent government's share of Rs. 1450 crores in a phased manner.

- ❖ As on 31.03.2020 out of Rs. 2,98,256 gross loans outstanding, Rs. 2,70,145 crores, 90.60 percent is from priority sector. Out of this, share of agriculture sector stood at 70 percent and MSME sector is 11.80 percent. For non-priority sector this share is 9.4 percent, amounts to the tune of Rs. 28,111 crores.
- ❖ RRBs functioning in states like Andhra Pradesh, Gujarat, Jharkhand, Tamil Nadu, Tripura, Telangana were able to make profit during 2019-20. Bihar, Karnataka, Maharashtra, Madhya Pradesh, Odisha, Uttar Pradesh based RRBs are the main loss incurred RRBs during 2019-20.
- ❖ Total income of RRBs during 2019-20 was Rs. 49,451 crores and total expenditure were Rs. 51,658 crores. As a result, RRBs incurred a loss of Rs. 2,206 crores during the year.
- ❖ The Gross NPA percentage during the year 2019-20 was 10.4 comparatively the previous year rate of 10.8 percent. There is a little decline in Net NPA rate also from 6.8 percent to 5.7 percent comparatively the previous year rate.

Conclusion:

The Regional Rural Banks came into existence mainly with an intention to reach the rural poor as low cost credit agency and as poor man's bank. RRBs have done a good work so far and have to travel a long way. The stable and strong Rural Banks are necessary in the process of rural development by meeting the credit needs of weaker section of the society. By reducing their NPA and vanishing the accumulated losses in their Balance Sheets they have to survive and have to play further a crucial role in the Indian banking arena.

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