

STRATEGIC ANALYSIS OF REGIONAL RURAL BANKS IN INDIA**D. Ingale**Sinhgad Group of Institutes, Pune
devyani_ingale@rediffmail.com**ABSTRACT**

The objective of this research paper is to study about the Regional Rural banks in India, how this banks functions in the rural areas and provide various banking services to the people of rural areas. Regional Rural banks are specifically established for serving the rural people and providing them with banking products and services. These banks come under Ministry of Finance, which is a part of government of India. In this paper, we tried to identify the role and working of Regional rural banks in India, opportunities and challenges faced by them, involvement of latest technologies in these banks and performance of these banks as a part of Indian banking system. In India there are millions of people who resides in rural areas and in view of providing them with the banks and various banking services, regional rural banks were introduced by the government of India. This paper will help us to understand the current situation of these banks, how progressive and helpful they are for the rural development and rural people.

Keywords: Regional Rural banks, Indian banking sector, Rural development. Opportunities, Challenges.

Introduction

Regional rural banks of India are a part of Ministry of finance of government of India. These banks were introduced by Indian government with the purpose of serving the Rural population of India and providing them with common banking facilities and to provide credit facilities to rural sectors. RRBs are mainly situated in one or more districts of a state, and it has urban branches as well. The functioning of RRBs is restricted to a specific area as given by or assigned by the government of India. Regional rural Bank of India comes under scheduled commercial bank and look after the banking needs of the people in rural areas. Regional rural banks of India were introduced on the suggestion of Narsimha Rao committee under the RRB act 1976 to provide basic banking facilities and to fulfil the credit needs of backward rural people, unprivileged villagers and mainly the people who belongs to agricultural sector and require credit facilities for their businesses. As a result of RRBs act, on 2nd October 1975, five RRBs were

established. The RRBs ownership is distributed between the central government who holds 50% of the shares, state government which holds 15% and 35% the sponsoring bank. Today, in total 45 RRBs are there in India under the ownership of the government of India which provides financial and banking assistance to rural population. The Prathama Grameen bank was the first RRB in India sponsored by Syndicate bank.

The main objective of Regional rural bank is to open branches of banks in rural areas and providing loan facilities for agricultural and other small and medium scale businesses of rural people. The basic idea behind establishing RRBs was to encourage savings, accepting deposits, lending money to the rural sector for the purpose of development and progress of rural areas. Earlier, there were 190 RRBs in India then slowly some RRBs were mixed and merged with other banks which reduced their number to 45 at present. The regulation of RRBs is looked by RBI and NABARD combinedly.

Bank type	No. of branches		Change in numbers
	Dec 19	Dec 20	
Private banks	2,070	2,206	136
Nationalized banks	3,994	3,718	-276
State bank group	1,242	1,286	44
Small finance banks	291	366	75
Cooperative banks	1,604	1,619	15
Regional rural banks	770	769	-1



(Source:Times of India)



(Source: The Economic Times)

Literature Review

1. B. Misra (2006), in his paper he stated that RRBs are an integral part and one of an important and inseparable piece of rural credit structure of India. The exploratory analysis in this paper showed that the loan portfolio management of profit making RRBs needs concern and for non-profit making RRBs, they need focused attention by the sponsored bank specially in its investment portfolio management.
2. J. Sura (2008), in their research paper they showed what are the growth pattern of RRBs, their credit distribution and distribution of RRBs geographically. This paper depicts that the overall position of RRBs in India are not that encouraging. The credit management is quite poor which leads to improper functioning of these banks. It says that it is the responsibility of bank management and sponsoring bank to take corrective actions to increase the credit deposit ratio in RRBs which will increase their efficiency and relevance in rural areas.
3. M. Ibrahim (2010), in his research paper he observed that RBI and NABARD have obtained positive outcomes for the performance indicators of RRBs such as number of banks and their branches, capital structure, deposits in banks, loans and the shift in investments. He found that performance of regional rural banks in India has reformed and enhanced after amalgamation which has been done by the Government of India.
4. T. Patel and N. Shah (2016), in their research paper they showed that there has been increase in deposits and lending to the rural people. Spread ratio consist of interest income, earned and income expensed divided by total asset and spread ratio has a significant rise and growth in terms of Regional Rural banks of India.
5. S. Kumar, V.Goyal, and P. Sharma (2018), in their paper they stated that in the present atmosphere, banks should be monitor and build up correctly and would accomplish relativeness using its available resources. They showed that the key performance of RBs in India has radically been better from the past performance from the period of its formation, as various processes and upgradation have been start off by the government of India for their enhancement and survival.
6. A. Kumar (2018) published a research paper which showed the pre- merger and post- merger profitability performance of the Regional rural banks of India, mainly in context of Bihar state. Since 1991, various steps have been taken up by GOI for strengthening the RRBs example cleansing of balance sheet capitalization of selected RRBs etc. State wise and sponsor bank wise merge of RRBs is the recent route of restructuring of RRBs for improving their financial viability.
7. S. Sharma, P. Goyal, and N. Mittal(2019), in this research paper they stated that for the need of a developed Indian economy, there is a strong requirement of developing the rural sector of India financially. For that purpose, introduction of RRBs in rural areas of India was very important with the view that such banks will provide credit facilities at lower and reasonable rates to the rural public specially for developing agricultural, trade and commerce.
8. Dr. P. S. Ravindra, M. Satyavathi, Dr. S. Ramesh, M. Sowjanya and Ms. L. Tejaswini (2020) published a research paper in which they mentioned that

performance evaluation of banking sector is a constructive method to substantiate the steadiness and benefaction in our economic development. Rural banking is one of the majors holding up sectors for development of rural and backward areas of our country.

Research Methodology

This research paper is built on secondary data. The data is gathered from news articles, research papers, journals, official websites and other informative blogs and secondary data sources. The main emphasis of this research paper is to understand and strategically analyze the RRBS of India.

RESEARCH OBJECTIVES:

1. To study the scenario of Regional Rural banks in India with reference to their role and functioning under the government of India.
2. To study the SWOT analysis for Regional Rural banks as a part of Indian Banking system.
3. To study the development and performance of Indian RRBs.

Role of Regional rural banks in development of rural areas

The basic idea behind introduction of regional rural banks was to provide credit facilities with lower rate of interest to rural people and encourage savings by them through deposits. Rural people have requirements of credit as they mainly belong to agriculture sector, marginal farmers, artisans, small and medium businesses which needs funds which they many times go short with. So, In India there was a strong need of establishment of Regional rural banks. In the year 1976, Regional rural banks act was passed under which 190 banks were established in various districts of different states of India which were later meagered with various other banks and currently only 45 regional rural banks are in operation.

In the year 2009, it was revealed that many of the regional rural banks were making losses as their capital to risk weighted assets ratio (CRAR) was low. A committee was made in 2009 September, K C Chakrabarty as a chairman of this committee, recommended to recapitalize RRBs and it was suggested to all the regional banks to maintain their CRAR at least of 7% to 9%. 40 regional rural banks

among 82 RRBs in the year 2011 were provided 2,200 crores for recapitalization and rest 42 can maintain their CRAR on their own up to the suggested percentage. This leads to improvement in the position of RRBs specially the loss-making ones.

Regional rural banks play a very important role in our Indian banking system specially for the rural development. Role of RRBs are mainly:

- Providing various banking services and facilities to the rural population of India.
- Making lower rate credit available to the needy rural masses and, if possible, at concessional rates. Secure the weaker section of society or other rural people by providing them lower credit rate facility, as these people usually do not have access to cheaper loan facilities and who get caught up in debt traps because of borrowing from other private moneylenders.
- Encourage savings by rural people by letting them open accounts with RRBs and make deposits and then utilize their deposits for providing cheaper loans and making use of these funds for productive purposes.
- To improvise rural banking and other financial services for poor and backward regions of India.
- To provide funds or finance facilities to the agriculture related societies and associations, rural co-operative societies and other associations that work for the betterment and development of rural areas.
- Regional rural banks have a role of improving and developing the rural economy by providing short- and medium-term loans to the rural working populations like farmers, artisans, small and medium businessmen, laborers' etc.
- Regional rural banks establishment leads to increase in employment opportunities and literacy level for the rural masses as they can work their and make themselves financially literate.

Strengths and weaknesses of Regional rural banks of India

- Strengths of Regional rural banks in India
- Regional rural banks have a specified region or area of operation geographically. They maintain relations with the rural

people specially the borrowers to understand the rural situation for banking purposes. This guides the banks to understand the background of the borrowers, there and help them to remove the breach of contract by the rural borrowers. This leads to smooth working of banks as they can serve and operate in the provided scope as per the sponsored banks avoiding risks and uncertainties.

- As the geographical areas are small and specified for regional rural banks, they can easily make use of deposits to provide loans and manage both the deposit interest rates and loan interest rates for the rural population consisting of farmers, artisans, small entrepreneurs etc. This gives the banks an advantage over other rural credit providing associations because regional banks have more deep insights into rural sectors.
- Regional rural banks have proper knowledge and information of rural area and people. So, they can easily help providing the right banking and financial facilities to rural people which is one of their strong strengths.
- Regional banks are confined to a specific area that's why they are far away from government and state politics and work freely without any local or political interference in the rural development.
- **Weakness of Regional rural banks in India**
- Regional rural banks are situated in rural and backward areas, employees from urban areas are reluctant to move to rural places and work at those places. They are not comfortable with the surroundings and the hassle which comes with operating a bank in rural sector. In addition to that, there are less employees who are fit for working in banks. Therefore, local rural people involvement as a staff in these banks are very less.
- Branch expansion of regional rural banks is a bit difficult task as there is less of coordination inside the branch and there is no guarantee that the branches of these banks will get opened where there is hardly a bank operating. So, it leads to a slow and problematic expansion task.

- Rural people are very conserve in terms of opening bank accounts for the purpose of making deposits in them and utilizing bank facilities in comparison to the lending by these banks excluding the rich section of rural population who have enough funds to keep as deposits with banks. The rural people have funds which they prefer to keep with themselves rather than depositing them, they consider deposits of bank as an unnecessary process.
- Lending is never an easy option for the regional rural banks. The staff of such banks must make many efforts to find out the potential borrowers and encourage them to opt for cheaper loans as most of them feel that it will be better to ask moneylenders for funds with less formalities and quick finance rather than going through all the banking loan procedures and then getting funds.

Opportunities and threats/challenges for Regional rural banks in India

- **Opportunities for regional rural banks of India**
- The regional rural banks are restricted to provide any kind of loan to the richer sections of rural areas which should be removed and at least some part of banks funds should be lend to this section. This will help in maintain the income for banks in terms of interest recovered on loans from them and encourage them to open accounts, make more deposits and use other banking facilities as well.
- Rural people should be encouraged to make investment in different banking schemes like fixed deposits by telling them the advantages of such investments and let them be a part of equity share capital of the regional rural banks.
- Rural people should be preferred and motivated to prepare for banks exams and secure jobs in RRBs after that, which will lead to lessen of unemployed rural masses and will raise their standard of living by providing employment opportunities in their region.
- The credit management of RRBs should be improvise and strictly monitor. So that they can lend funds to right people, continuously

measure the progress of loan granted and proper recovery of the funds within time. This will help the banks to maintain their balance between requirement of loans and available funds with banks to grant.

- Regional rural banks should try to lessen the documentation procedure for illiterate and backward classes of rural areas as this will encourage them to approach banks for loans rather than going to moneylenders who provide them with easy finance without any procedures.
- **Threats/challenges for Regional rural banks in India**
- Poor and backward masses of rural regions have less amount of savings, and they deal in regular cash and withdrawals. Due to this, rural people do not prefer to invest or deposit in banks, and this is a big challenge for the regional rural banks as it leads to disbalance between funds to be provided for loans and manage their banking activities.
- Rural people have major needs of loans which are of micro nature as they have not only financial needs for agriculture or business purposes, but they also need money for their daily consumption. In urban areas commercial and other banks easily provide credit cards and personal loans for such small and daily needs of finance but rural banks are restricted and avoid providing micro finance to rural people. Therefore, they prefer to go to money lenders for financial requirements then approaching regional rural bank.
- The richer sections of rural areas have irregular need for funds of small and medium nature which contains proper documentation and formalities filling. So, these people avoid going to rural banks for their requirement of one-time capital investment as they consider these procedures a burden and therefore try to keep away from this time-consuming process of getting finance from regional banks.
- Many regional rural banks do not have connection to their sponsored or main bank branches computers or internal system, which leads to delay and difference in time of sanction of loan and actual disbursement

of it. This acts as another reason to discourage the rural masses to approach banks for finance as they mostly have money requirements which are immediate.

- Loan requirement is high in rural regions, but many at times it becomes difficult for the regional banks to collect or recover the granted loan amount back from the rural people due to their incapability of repaying the loan back. Not able to recover the loans is one of the biggest challenges faced by the RRBs in all times.

Technologies in Regional rural banks of India

Regional rural banks work with basic technologies and systems. They do not have much complicated software's and other highly used new technologies like digitalization of entire banking facilities of these banks for the rural people as the rural masses are from backward and illiterate sections and they find adopting to new and upgraded banking system and procedures to be a burden more than a way of ease. New banking technologies which can be introduced in regional rural areas are:

- Latest e-KYC facility can help rural people to open bank accounts and apply for loans easily, they can get themselves registered and provide their basic details from anywhere and not being bothered with banking procedures on physical visits to banks.
- Regional rural banks should introduce their mobile application for rural masses as in current time everyone has access to the internet. They can easily make use of banking facilities through these apps, and this will help banks to encourage rural people to open accounts, make deposits, apply for loans, and keep a track of their account status.
- Introduction of E-banking services by regional rural banks is a broader aspect which includes normally every banking and financial facilities online over the internet through a website. This will help and guide rural customers to have an easy access to all these facilities.
- Rural areas do not have many banks and branches. So, introduction of agent banking will be a solution to this issue as in these

agents on behalf of rural banks will aid the customers, solving their problems and guiding them about the various banking facilities in a cost-effective manner.

- In remote/rural areas technical facilities like ATMs, POS and e-corners will help both the rural banks and masses. It will help banks to work more cost effectively and with lessen burden of guiding rural customers at each step of any banking process. This will also lead to more satisfaction among the rural customers.

Performance of regional rural banks in India

As per the latest data revealed about the performance of regional rural banks of India in the financial year 2020 by NABARD, Indian RRBs suffered from heavy net losses of 2,206 crores as compared to 652 crores in the financial year 2019. 26 regional rural banks of various states earned profit of 2,203 crore while 19 RRBs suffered losses of 4,409 crore. Position of deposits was 10.2% and advances increased to 9.5 %. Doubtful assets were 6.5%, loss assets were 0.3%, share of standard stood to 89.6% and sub-standard was 3.6% for the FY 2020.

Regional rural banks had gross non-performing assets (also known as NPAs) as a percentage of gross outstanding loans to be recovered in a declining position of 10.4% for the financial year 2020 with comparison to the financial year 2019 which had 10.8%.

Entire business for the FY2020 of regional rural banks of India earned 7.77 lakh crore and they attain a growth level of 8.6% in the year 2020 as compared to 9.5% in the financial year 2019. Among tall the regional rural banks of India, 18 of them had 10% above gross non-performing assets (GNPA) as on 31st March 2020.

Gross outstanding loans were 2.98 lakhs crore for 2020 year as compared to 2.80 lakhs crore in the FY 2019. In these gross outstanding loans, 90.6% was comprised by priority sector loans. In total loans outstanding, micro, small and medium enterprises (MSMEs) had 12% of share and agricultural sector had 70% of share in FY 2020 according to the data provided by NABARD.

The CRAR (capital to risk weighted assets ratio) of 17 regional banks out of 45 was less than 9% and 6 of them had a negative capital to risk weighted assets ratio in the year 2020. This shows that in comparison to the previous FY 2019 which had 11.5% of CRAR, 2020 FY's CRAR stood only to 10.2%.

Findings

1. Regional rural banks are one of the biggest banking solutions which is provided by the government of India to the rural sectors and backward regions of our country. RRBs plays a very important role in developing the standard of living of the rural masses and uplifting their financial condition which was otherwise was very poor and degrading.
2. Regional rural banks stood as a backbone and a helping hand to the rural borrowers who need finances at cheaper rates and from a secured channel of funds, especially farmer for agricultural purposes, small and medium businesses, artisans, marginal farmers, and poor households of rural areas.
3. The specified area provided by the government of India to the regional rural banks acts as the major strengths of RRBs as it helps them to understand the rural region scenarios, their funds requirements, customers creditability, probability of loan recovery and portion of funds which can be obtained from deposits by the rural people.
4. As the name of RRBs suggests that they are rural banks geographically situated in rural and backward areas, it leads to discouragement of staff to work in these banks. Branch expansion is therefore not possible due to less coordination in the RRBs.
5. Rural masses prefer moneylenders for the purpose of getting funds for their micro and small requirements of finance to safe themselves from bank loan procedures and time taken in disbursement of loan. Loan requirement is there in rural areas but recovering of loans granted by RRBs to rural people is the biggest challenges for them so far.
6. RRBs should be lenient in their norms of excluding richer sections of rural sections

and let them get the benefits of banking credit facilities as this will only act as an opportunity and will improve rural banks situation financially and encourage the richer sections of rural areas to make deposits and open accounts with banks. Banks documentation procedure should be relaxed, and credit management system should be strengthened.

7. Digital banking facilities should be introduced by regional rural banks like mobile application, net banking, RRB website for accessing various banking services online, making use of agent banking to be cost effective and prevent opening of more branches unnecessary. Latest Banking technologies will help RRBs in various measures and will provide them easy in there working and will positively affect their performance.
8. As compared to the financial year 2019, there was a decrease in the financial performance of RRBs in the year 2020. Nineteen RRBs of all the total regional rural banks of India made heavy losses. Capital to risk ration of six RRBs stood negative and other 11 RRBs had CRAR less than 9% which was a degrading situation.

Conclusion

Regional rural banks are one of the initiatives taken by the government of India for the development and betterment of rural sector especially making them financially strong and free from malpractices of private money lenders and their exploitations. The drawbacks of rural banks are that rural masses don't prefer rural banks for financial facilities and credit assistance despite all efforts made by the banks and these people have very less or no saving to deposit with banks. RRBs can take advantage of latest technologies to improve their performance and can include richer sections of rural areas under the scope of their facilities. Credit management system should be strengthened and properly control to make loan recoveries more timely and complete. Overall, for the year 2020, the performance of regional rural banks was depleted from the previous year, and this will have a negative impact on the Indian banking system as these banks are not performing well. After recapitalization of RRBs most of the bank's situations have improved and they have started maintaining their profitability and performance. Still some loss-making banks needs attention and proper assistance better their current performance.

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