

## A Study on Role and Performance Appraisal of Regional Rural Bank in India

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### Abstract

In developing countries such as India, the rural banking sector is pivotal to agriculture and rural development. A robust and efficient rural credit delivery system is critical for delivering timely, appropriate, and equitable access for rural and agricultural development. For this purpose, the Government of India had established Regional Rural Bank under the Ministry of Finance, which is operating at the regional level in several Indian states. Such categories of bank specially came into existence to provide basic banking and other banking auxiliary services particularly to rural areas. With the massive expansion of rural branches, RRBs are currently dealing with a slew of issues, including delayed payments, inadequate recovery, and a high degree of non-performance assets, massive losses, sluggish lending activity, a lack of finance, and other issues. Therefore, research of the role and performance of RRBs in India is required. This study aims to analyze and evaluate the accomplishment of apex bank RRBs in India from 2015-16 to 2019-20. This research study was based on secondary data aggregated from various sources like yearly reports of NABARD and RBI and comprised of analytical research design of different key performance benchmarks and measures indicators showing of rapidly growing trends. This study discovered and indicated the performance of RRBs had been greatly enhanced through explanatory research.

**KEYWORDS** – NABARD, Regional Rural Banks, Rural Development, Growth, Financial

### INTRODUCTION

Regional Rural Banks are government-owned schedule commercial banks in India that work at regional level in a few states across the nation to meet the financial requirement of rustic and oppressed individuals and to advance monetary consideration in rustic regions. The essential objectives of RRBs are to give advances and monetary administrations to small and minimal ranchers, rural workers and little craftsman to reinforce the country. Accepting deposits, giving loans, disbursing wages under the MGNREGA and PMGSY schemes, disbursing pension, lockers, debit and credit cards, mobile banking, internet banking, and other UPI services are among the banking services provided by RRBs. RRBs were founded by an ordinance passed on September 26, 1975, and then by the RRBs Act, 1976, with the express purpose of providing enough banking and credit facilities for agriculture and rural development. RRBs were founded to bring rural areas into economic and social mainstreams on the proposal of the Narasimha Committee on Rural Credit during the time of former Prime Minister Indira Gandhi's government, as around 70% of India's population was rural. Prathama Bank having headquarter in Moradabad, Uttar Pradesh, was established the first RRB sponsored by Syndicate Bank, with ₹ 5 crore approved capital. Since then, RRBs have been owned by the Central Government, State Governments, and Sponsoring Banks, with 50%, 15%, and 35% shareholdings,

respectively. RRBs are presently fulfilling their role under the monitoring and observation of Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development(NABARD).

#### **RRBs in India have the following functions and objectives:**

1. Promoting rural people's saving practices, accepting deposits, and allocating cash for constructive purposes.
2. Expansion of rural branch networks with motive of banking inclusion.
3. Providing loans available to marginal and small farmers, agricultural laborers, and small artisans at lower cost who impart notably to the development of the rural economy.
4. creating platform and providing more job opportunities in backward rural areas and community.
5. Defending rural residents against the exploitation of local moneylenders.

#### **LITERATURE REVIEW**

1. There are a number of studies have been proceeded to scan the operation efficiency and overall performance of regional rural banks as whole in India. The literature on the operation and performance of RRBs in India is somewhat scarce. The following are several reviews' connected literatures.
2. Singh (1992) examined the performance of Punjab's RRB banks. Prasad (2003) assessed the performance of India's RRBs.
3. Pati (2005) also deliberate the RRBs performance in the north-east region.
4. Bagchi and Hadi (2006) engrossed their research study on the working execution of RRBs in West Bengal. There are few studies in the existing literature which focus on evaluating the working efficiency of regional rural bank by using key performance indicators.
5. As a result, there has been a recent inclination toward judging and concluding bank performance using various economic measures. This study provides an explicit, accurate, comprehensive, and precise estimate of bank working performance efficiency by comparing all RRBs in India.

#### **OBJECTIVE OF THE STUDY**

1. To study the financial performance of Regional Rural Bank in India.
2. To examine the significant performance index and yardsticks of RRBs in India.
3. To assess the growth pattern of RRBs in India from 2015-16 to 2019-20.
4. To investigate the steps done by regulators to improve RRB performance.
5. To give recommendations and draw conclusions to improve the operation of RRBs.

#### **IMPORTANCE OF THE STUDY**

The current study is pivotal to the presentation of RRBs in India, and the findings of the current study will be important for policymakers as they attempt to work on the working of RRBs in India.

## SCOPE OF THE STUDY

It is based on all RRBs that operate in India. This analysis is centered on a certain time span ranging from 2015-16 to 2019-20 i.e. after several RRB amalgamations in India. The purpose of this research is to assess the performance of RRBs at the macro level in India.

## METHODOLOGY OF RESEARCH

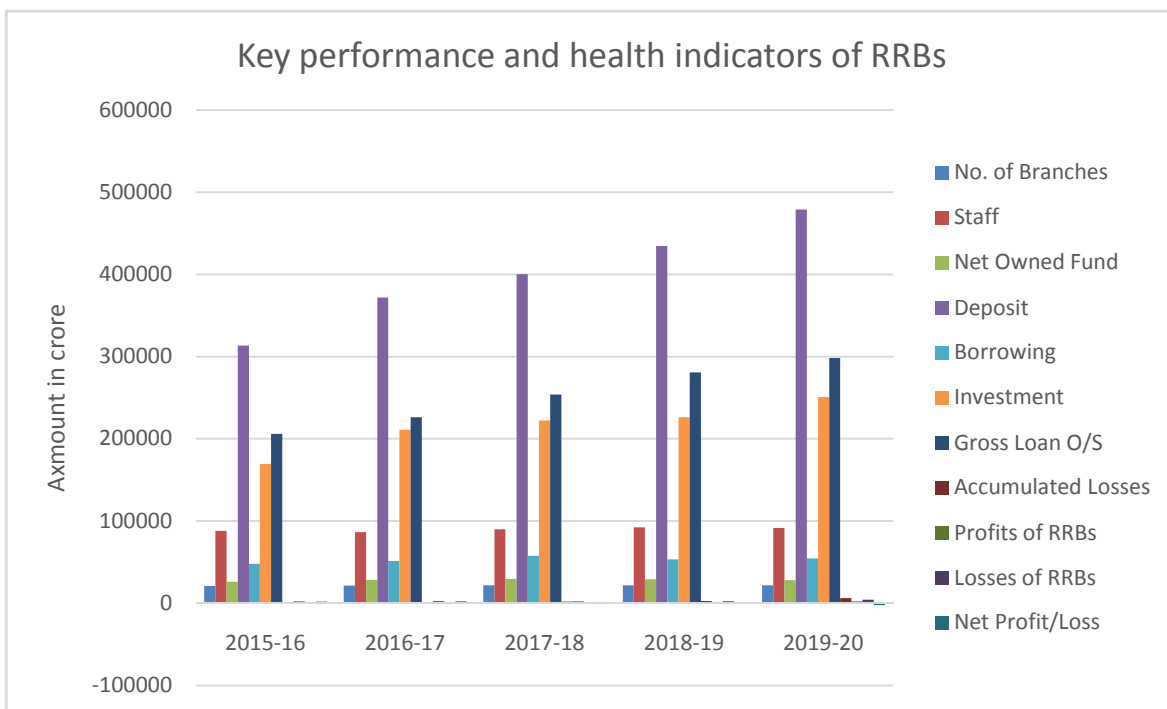
This study is based on secondary data congregated from NABARD and RBI annual reports, as well as other pertinent material gathered from other journals and websites. The financial performance of RRBs in India has been examined using key performance indicators. For the computation of the growth rate, the year 2019-20 was used as the Current Year and the year 2018-19 as the Base Year. Growth rate is calculated using the following formula:  $\text{Growth Rate} = \frac{Y_t - (Y_{t-1})}{Y_{t-1}}$   $Y_t =$  Current Year,  $Y_{t-1} =$  Base Year.

## DATA ANALYSIS

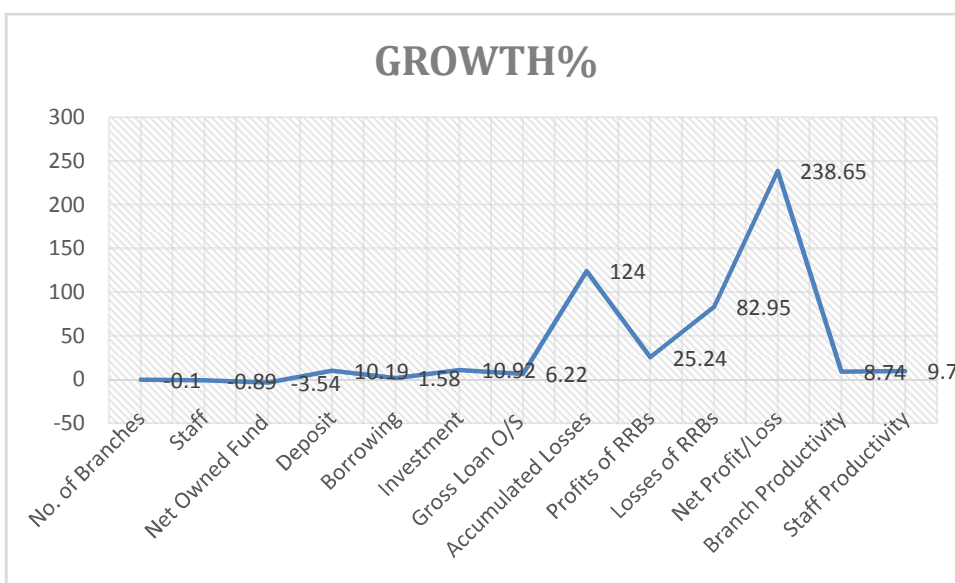
Key Performance and Health Indicators of RRBs (₹ in crores)

Particular	2015-16	2016-17	2017-18	2018-19	2019-20	GROWTH%
NO. of RRBs	56	56	56	53	45	-
Profit/loss making	50/6	49/7	45/11	39/14	26/19	-
No. of Branches	20920	21422	21747	21871	21847	-0.10
Staff	88193	86549	89806	92443	91616	-0.89
Net Owned Fund	26002	28333	29653	29232	28195	-3.54
Deposit	313499	371910	400459	434444	478737	10.19
Borrowing	47888	51588	57647	53548	54393	1.58
Investment	169592	210984	222266	226172	250859	10.92
Gross Loan O/S	206175	226175	253978	280755	298214	6.22
Accumulated Losses	1050	1147	1866	2887	6467	124
Profits of RRBs	2206	2604	2530	1759	2203	25.24
Losses of RRBs	188	387	1005	2411	4411	82.95
Net Profit/Loss	2018	2218	1525	-652	-2208	238.65
CD Ratio	66	61	63	65	62	-
GNPA%	6.8	8.07	9.47	10.80	10.43	-
NNPA%	4.23	5.06	5.9	6.81	5.81	-
Recovery %	82.55	81	78	77	77	-
Yield on Productivity	8.76	8.27	8.04	7.51	7.86	-
Branch Productivity	24.84	27.91	30.09	32.7	35.56	8.74
Staff Productivity	5.89	6.91	7.28	7.73	8.48	9.70

Source: Annual Report of NABARD and RBI



Source: Annual Reports of NABARD and RBI



Source: Annual Reports of NABARD and RBI

### INTERPRETATION

Table 1 demonstrates that the performance of the country's rural apex banks, or RRBs, has deteriorated in terms of net owned capital compared to the fiscal year 2019-20. As indicated in the graph, the percent growth in net owned capital is negative, which is not a positive sign for RRBs' financial performance. Deposit, Borrowing, Investment, and Gross Loan O/S, on the other hand, have growth rates of 10.19%, 1.58%, 10.92%, and 6.22%, respectively, indicating solid performance for the future.

### **Profitability**

During the fiscal year 2019-20, 26 RRBs (out of 45 RRBs) achieved a profit of ₹2203 crores. The profit was marginally higher than the previous year, with this 19 RRBs incurring a loss of ₹4411 crores, over double the previous FY 2018-19, resulting in a net loss of ₹2208 crores. Profitability suffers as a result of an increase in salary bill as a result of the implementation of a pension program. In addition, out of 26 profit earning RRBs, 18 RRBs earned a profit of less than 100 crores, 4 RRBs earned a profit of more than ₹200 crores, and 4 RRBs earned a profit of less than 1 crore.

### **Accumulated Losses**

As of March 31, 2020, 17 out of 45 RRBs had accrued losses totaling ₹6467 crores, compared to 11 out of 53 RRBs with losses totaling ₹2887 crores as of March 31, 2019.

### **Non- Performing Assets (NPA)**

The asset quality of RRBs was determined to be marginally improved, with 10.43 percent GNPA compared to 10.8 percent on March 31, 2019. The NNPA of RRBs has also decreased to 5.8 percent as of March 31, 2020, from 6.8 percent in FY 2019.

### **Recovery Performance**

According to the research of the above data, RRBs' recovery performance of their dues has consistently improved in FY 2020 as compared to last FY 2019.

### **Credit Deposits Ratio**

Due to growth in Investments, Gross Loan, and Advances, the aggregate CDR of RRBs has declined over the year from 65 percent on March 31, 2019 to 62 percent on March 31, 2020.

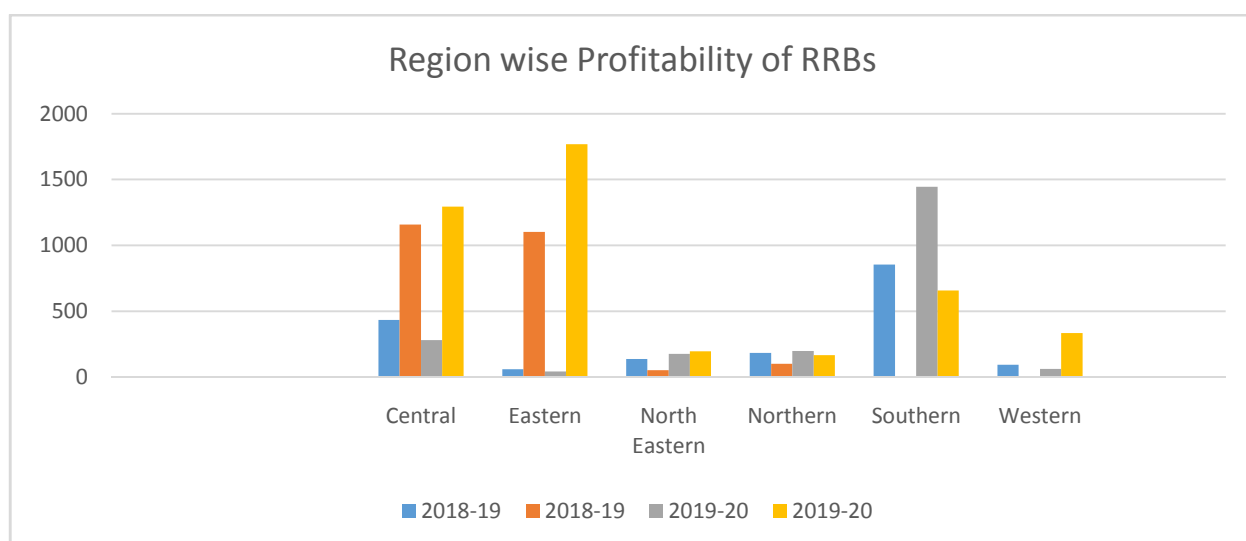
### **Branch and Employee Productivity**

The branch productivity increased to 35.56 crores in 2019-20 from 32.7 crores in 2018-19 with overall growth of 9.70% rise.

Regional Analysis of RRBs (₹ in crores)

Region	2018-19				2019-20				GNPA %		RECOVERY % (as on 30 <sup>th</sup> June of previous year)	
	Profit		Loss		Profit		Loss		2018 -19	2019 -20	2019	2020
	No.	Rs.	No.	Rs.	No.	Rs.	No.	Rs.				
Central	7	433	5	1157	4	281	5	1294	16.2	14.7	66.9	72.1
Eastern	5	59	4	1101	2	42	6	1769	23.1	21.6	57.4	57.7
North Eastern	5	136	3	52	4	175	3	194	23.8	20.7	68.4	63.2
Northern	5	183	2	100	5	197	2	166	8.2	7.2	84.1	81.9
Southern	12	855	0	-	8	1446	2	656	3.5	4.8	87.3	84.2
Western	5	93	0	-	3	62	1	333	7.5	7.3	62.4	67
<b>All India</b>	<b>39</b>	<b>1759</b>	<b>14</b>	<b>2411</b>	<b>26</b>	<b>2203</b>	<b>19</b>	<b>4411</b>	<b>10.8</b>	<b>10.4</b>	<b>77.7</b>	<b>76.9</b>

Source: Annual Report of NABARD and RBI



Sources: Annual Report of NABARD and RBI

**INTERPRETATION**

As none of the RRBs in the western and southern regions incurred losses in 2018-19, this is no longer the case in 2019-20, as shown in table 2, which concludes that no more RRBs are experiencing losses across all regions. In addition, the number of RRBs in profit has decreased to 26 from 39 in FY 2019. However, the entire profit in FY2020 is reported to be ₹2203 crores. In addition, the number of RRBs in loss increased by 83 percent in FY 2020. (FY 2019). As a result, the net loss suffered by RRBs grew from ₹652 crores in FY2019 to ₹2208 crores in FY2020. Looking at asset quality, the southern area had the lowest gross NPA percent at 4.8 percent. However, the quality increased in all regions except the south when compared to the status on March 31, 2019. According to the analysis, the recovery performance of all regions

has improved, with the exception of the northern eastern area, as compared to the same position in FY 2019.

### **SUGGESTIONS**

The government should encourage and provide aid to banks in taking best rural development steps. It is likewise encouraged to keep the borrower's loan fee as low as could be expected and furthermore endeavors ought to be made to lessen the non-interest cost of credit. Productivity proliferation can be done through enhancing income and reducing the cost. The government should take strict and appropriate action against the loan defaulter and do not give any excuses. RRBs must focus on various micro credit schemes as well as the Self Help groups. A viable pattern of interest rate design should be formed particularly for rural financial institution. The RRBs must implement effective credit administrative system with regards to credit rationing and appraisal, loan monitoring and fast loan recovery. For funding rural activities, RRBs lending strategy must be comprised of group based approach. RRBs must moderate and relax its lending norms and procedure to make them more approachable to village borrowers. In addition to this the present study also revealed that RRBs must control its operating expenses in order to increase its productivity.

### **CONCLUSION**

In order to summarize, it is found that the performance of apex bank i.e. Regional Rural Banks is satisfactory in terms of providing banking facilities in rural areas. RRBs are consistently making efforts in branch expansion for achieving its objective of making available the banking facilities to the doorstep of rural households and providing cheaper and easy credit to the rural people who are mostly rely on private lenders. In addition to this, RRBs also playing vital role in rural development by providing banking services to marginal and small farmers, socioeconomically disadvantaged people, artisans, and laborers. Through present study it also discovered that RRBs are emphasizing more on deposit mobilization and credit deployment in underserved rural areas which result as banking inclusion. However, from last few year RRBs are occurring huge amount of losses so it's become necessary to revise its profit making policy to improve its performance. Overall RRBs are imparting valuable efforts in the growth of Indian economy.

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