

A Study on Performance Status of Regional Rural Banks in India

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Abstract - The present study aims to analyze the recent financial performance of Regional Rural Banks (RRBs) in India, considering different multiple financial performance indicators for the period 2005-2006 to 2015-16. Secondary data were used to evaluate the different indicator extracted from the annual reports of NABARD (National Bank for Agriculture and Rural Development). The study found that the Regional Rural Banks in India has made significant improvements in these years. It was also found from different studies that, consistent efforts of RBI and Government like amalgamation have directly influenced in the performance of RRBs. A consistent performance has been resulted.

Keywords: Regional Rural Banks, Performance evaluation, NABARD.

I. INTRODUCTION

The lack of accessibility to financial services by the poor and disadvantaged stream is identified as one of the serious obstacle for including the backwards in the process of inclusive growth (NABARD, 2012). It is also evident that bank is one of the key factors in the economic development. Regional rural banks were established in 1975 under the Regional Rural Banks Act, 1976 with an intention of attaining improvements in economy through providing credit and other facilities particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs or low income groups of society for the purpose of accelerating agriculture, trade, commerce, industry and other productive activities in rural areas. In Indian scenario, Regional Rural Banks is not only acting as link between transforming household or small savings to industrial investment but also provider of financial services to the unbanked areas of economy. In 2005 on the suggestion of Vyas Committee which was constituted in 2001 and recommended restructuring of RRBs, the first phase of consolidation restructuring of RRBs was done by amalgamating 196 Regional Rural Banks, for improving their operations to achieve economic advantage and to ensure better managerial control by giving appropriate autonomy and to take necessary solution for their problems like nonperforming assets, recovery performance, branch expansion etc. Regional Rural Banks (RRBs) is a key factor of rural financial system of India. These institutions were built up in an intension to attain prosperity to local economy by providing banking financial services to rural people or unbanked section of an economy. Developing country like India, it is essential to reduce the gap in accessibility of finance to achieve targeted economic growth. Through a prompt RRBs network it can be assure that transformation of house hold savings, small keepings

etc. from remote area to broad industrial forms as capitalization can be succeed at ease.

In Banking Commission report of 1972 visualized the idea of setting up of rural banks in India. The journey of Regional Rural Banks in India began from the year 1975 and the Regional Rural Banks have become integral part of the rural financial system of the country and successively increase in providing credit and other banking financial services to the rural masses by adding wide network of branches, adopting strategic schemes etc. in different states of the country. For the better functioning of RRB various actions have been taken such as consultation with NABARD, state level amalgamation of RRBs between particular state Government and sponsor bank, sponsor bank wise amalgamation in September 2005. In 2004, Vyas Committee suggested that restructuring of RRBs will brings the operational highs through proper control and administration. The amalgamation process consisting of two phase. In the first phase, it's the amalgamation of all RRBs of sponsor banks to create a single unit in that state while in the second phase; state level consolidated amalgamation was done.

During September 2005 to 2008 the first phase amalgamation process were done among sponsors bank of RRBs at state level. In 2005 under the chairmanship of Sardesai a Committee was constituted by RBI to analyze the impact of restricting of RRBs. The committee supported on merger or amalgamation of RRB's to make them productive and profitable financial institution. At the end of September 2005, there were 196 RRBs which functioning in 26 states across 525 districts with a network of 14,494 branches. After all the amalgamation process of RRBs the total numbers of RRBs were reduced from 196 to 88 in 2008.

The second phase amalgamation started in the month of October 2012. Previously a committee was formed under the supervision of Chakrabarty by the Government of India to know the financial strength of all RRBs and it also aimed to create strategies to attain CRAR of 9% till March 2012. As per the Chakrabarty committee recommendation, 40 RRBs out of 82 in 21 states were recapitalized. It has resulted in the share capital proportion of RRBs as 50, 35, 15 for Central Government, concerned sponsor banks and State Government respectively. After the completion of second phase of amalgamation numbers of RRBs became 56 covering 644 districts having 20904 branches by March 2016. RRBs is having a vital role in the Development of rural Socio-economy (Khar, B. M, 2013). Further studies were done in the appraisal of RRBs and found that aggregate performance positively resulted with their goals and performance. RRBs have significantly improved (Sony, A. K., & Kapre, A. 2013).

II. LITERATURE REVIEW

Many authors studied about the different aspects of RRBs and found different results and similarly quoted there are significant improvements in performance and RRBs will be path for successive economy of India.

Chidambaram (2007) founded that RRBs in India made a favorable status in deposit mobilization, credit dispensation and profit making during the period 2002-03 to 2004-05. RRBs succeeded in proving better customer services by maintaining good infrastructure facilities and personnel. He also mentions that all those reforms are made the RRBs priority focus on profit. Kher, B.M (2013) made a study on “The Role of Rural Banks in the Development of rural Socio-economy” with intension to analyses the rural credit and the role played by the RRBs in the priority and non-priority sector landings and found that RRBs had made a corresponding impact in non-priority section of economy and RRBs improved in operation of short term loan medium term loans etc. In 2013 (Sony, A. K., & Kapre, A.) conducted a study on “a study on current status of regional rural banks in India” and their study found that performance of RRBs has significantly improved by analyzing different performance indicator of RRBs in 2011.

Reddy, A. A. (2010) conducted a theoretical study on “Rural Banking Strategies for Inclusive Growth” to find out what are the strategies should adopt by RRB to improve

their overall performance. He suggested that the regional rural banks should adopt innovative methods to make the banks economically viable at the same time not compromising with outreach to the rural people and priority sector and less developed regions and poor people. The study specifically suggests reduction of number of bank branches to make individual banks economically viable and reach many villages through setting up of mobile banks/bank agents/representatives.

Rao, B.A & Rao, G.R.B (2016) attempted a study on “Regional Rural Bank and Financial Inclusion” to find out the study showed the results of RRBs made a significant impact in financial inclusion and around 2,500 new branches with a large number in unbanked locations under the financial inclusion targets assigned by the RBI as well. This study suggested special consideration in need of technological adaptation and operation of correspondent’s outlet has resulted in better performance of RRBs. Recently in Khan, S. S., & Ansari, A. A. (2018) analyzed the last seven years performance in their study “A Study On The Performance Of Regional Rural Banks In India”, found that consistent efforts have been taken by RRB and there has been a significant improvement in branch expansion, deposit mobilization, investments.

Lodha, G., & Trivedi, I (2015) did a study on A FINANCIAL INCLUSION THROUGH REGIONAL RURAL BANKS (RRB’S) which was aimed to study the spread of financial inclusion in India through RRB's and resulted of RRBs played a vital role in financial inclusion in reality .

III. METHODOLOGY

As the objective, analyzing the performance of Regional Rural Banks during 2006 to 2016 in India, performance indicators like Number of network of branches, investments, deposits, accumulated losses, and reserves, NPAs to loans, recovery operations and net worth are considered as the major performance indicators. In this descriptive nature study secondary data were collected from different annual report of NABARD period of 2006 to 2016. Their percentage changes and periodical variation are determined by using simple percentage method and result thereof.

$$\text{Equation for Percentage Change or Growth} = \frac{\text{Value of Current year} - \text{Value of Base Year}}{\text{Base Year}}$$

IV. ANALYSIS AND DISCUSSION

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Branch Network (No.)	14494	14520	14761	15181	15444	16001	16909	17856	19082	20024	20904
Percentage Change	0.1	0.2	1.7	2.8	1.7	3.6	5.7	5.6	6.9	4.9	4.4

As objective to check the performance status of RRB different indicators like network of branches, investments, deposits, accumulated losses, and reserves, NPAs to loans, recovery operations and net worth are considered as the major performance indicators which are available in the annual report of NABARD. Simple percentage analysis with table, graph and theoretical interpretations had made.

Table 1.1 No. of Branch Networks

Source: Compiled from the various reports of NABARD

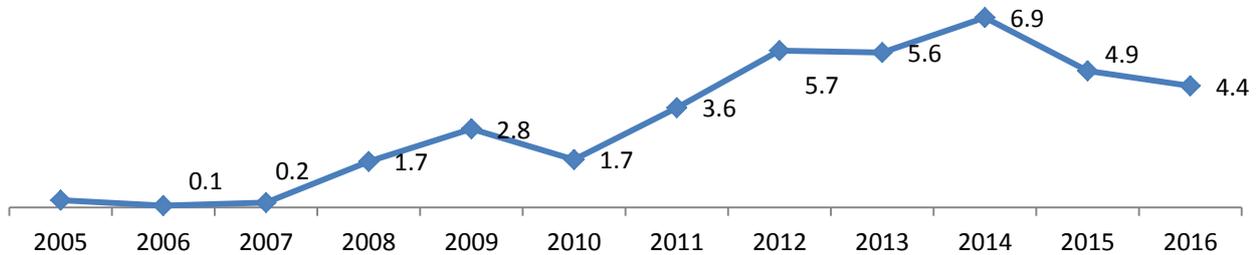


Figure 1.1: No. of Branch Networks

The Table 1.1 and Figure 1.1 reflect that the number of branch networks of RRB have been increased at an increasing rate since 2006. Except only few years it reported that the number of network increased only below of preceding year, even though it was in the period of improvements and it is satisfactory. The high rate of 6.9% in branch network improvement was achieved in 2014 were RRB had 2024 networks and the lowest increase of 0.1% was in 2006. The total performance in the number of branch network of RRBs is favorable. It seems a progressive growth and it can be conclude that area of operation is spreading to remote areas of rural. More branches were opened during this decade. Increase in branches and networks shows RRB making avail of different banking products and services to more people especially for rural.

Table 1.2 Reserves (in Crore)

Year	Reserves	%Change
2006	4270.56	11.84
2007	4901.54	14.78
2008	5703.06	16.35
2009	6753.99	18.43
2010	7912.39	17.15
2011	9565.58	20.89
2012	11262.99	17.74
2013	13130.01	16.58
2014	15736	19.85
2015	18712	18.91
2016	21032	12.40

Source: Compiled from the various reports of NABARD

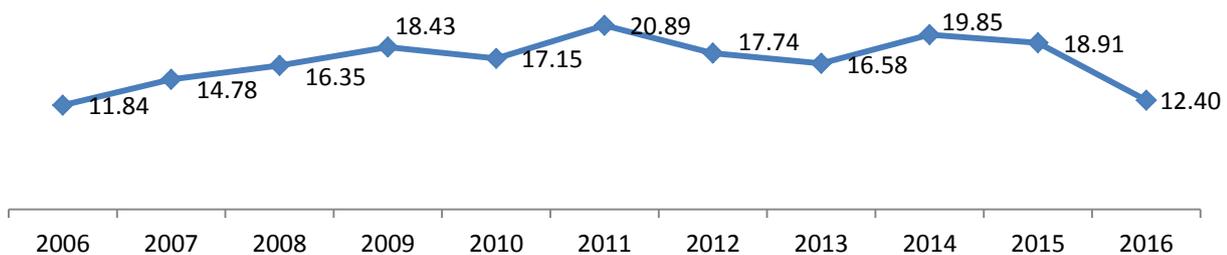


Figure1.2: Reserves

Table 1.2 and Figure 1.2 are about the of Reserves position of RRBs , as seen in the graph yearly RRB made a positive reserve ratio from their operation and it indicate that they performed well and capable of being keeping reserve ratio at an increasing rate. In 2011, it shown 20.89% increase in the reserve compared to 2010 and rupees of 9565.58Crores. In 2016 they possess 21032Crore of rupees as reserve. It found that RRB keeping a prominent and progressive reserve position during the period of 2006 to 2016.

Table 1.3 Deposits (in Crore)

Year	Deposits	% Changes
2006	71328.83	14.78
2007	83143.55	16.56
2008	99093.46	19.18
2009	120189.9	21.29
2010	148980.48	23.95
2011	166232.34	11.58
2012	186336.07	12.09
2013	211457.8	13.48
2014	239504	13.26
2015	273018	13.99
2016	315048	15.39

Source: Compiled from the various reports of NABARD

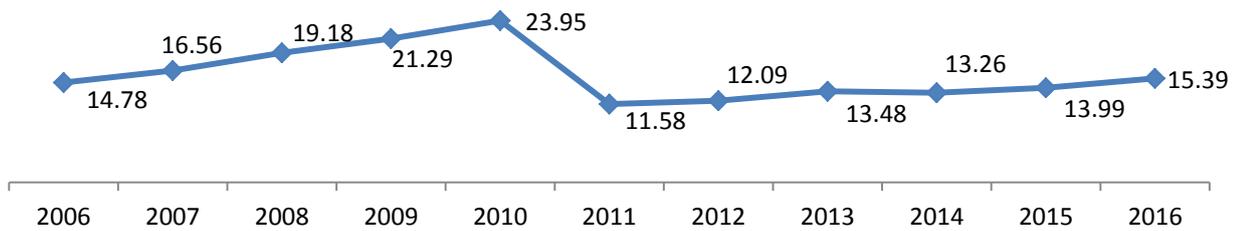


Figure 1.3: Deposits

It is evident from the Table 1.3 and Figure 1.3 that total deposit of RRBs is progressive in nature during 2006 to 2010. In 2010 RRB made 23.95% increment on the total deposit of 2009(120189.9Crores) and attained 148980.48Crores. It reported that a slight down slope in 2011 were percentage of improvement was 11.58% compared to 2010's total deposits and achieved amount of rupees 166232.34Crores in 2011. In 2016 RRB has 315048Crores of rupees as total deposit; it was only 71328.83Crores in 2006.Total deposit as an indicator it shows that the deposit position of RRBs is increasing at an increasing rate. In fact it can conclude that they could boost the saving behavior of rural people.

Table 1.4 Investments (in Crore)

Year	Investments	Percentage Growth
2006	41182.45	12.01
2007	45666.14	10.89
2008	48559.54	6.34
2009	65909.92	35.73
2010	76167.29	15.56
2011	86510.44	13.58
2012	95974.93	10.94
2013	110683.5	15.33
2014	139631	26.15
2015	162781	16.58
2016	210936	29.58

Source: Compiled from the various reports of NABARD

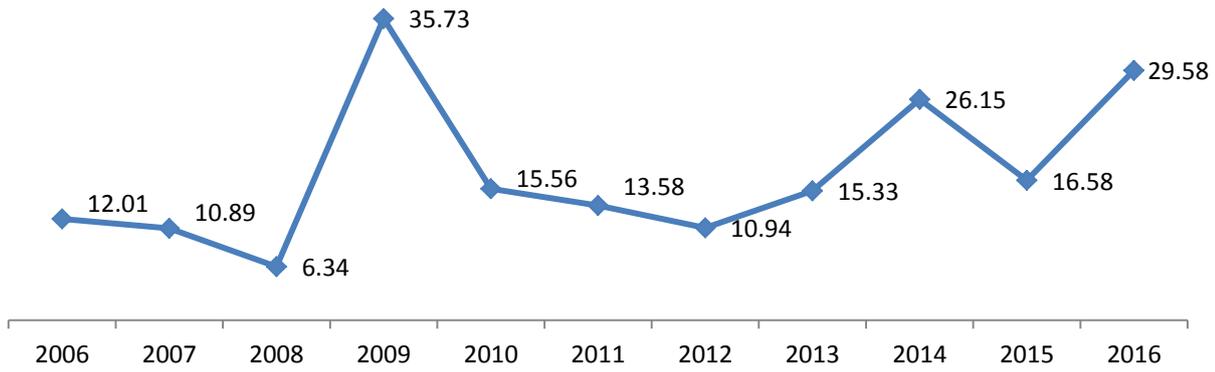


Figure1.4: Investments

Table 1.4 and figure 1.4 represent the annual investment of RRB, in 2009 RRB increased their investment to 65909.92Crores at 35.73% more than on its previous year 2008(48559.54Crores). Investment position showed consistent and progressive norms in the performance of RRB. This regular investment hike results that RRB not only acquiring savings from rural but also converting through investment. A well investment plan has been taken to convert all the available money into profitable investment. Finally in 2016 RRB having the total investment of rupees 210936 Crores.

Table 1.5 Accumulated Losses (in Crore)

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Accumulated Losses	2637	2759.5	2624	2300	1813	1532	1333	1012	903	1072	1030
Percentage Change	0.04	0.04	0.03	0.03	0.03	0.05	0.06	0.06	0.09	0.13	0.09

Source: Compiled from the various reports of NABARD

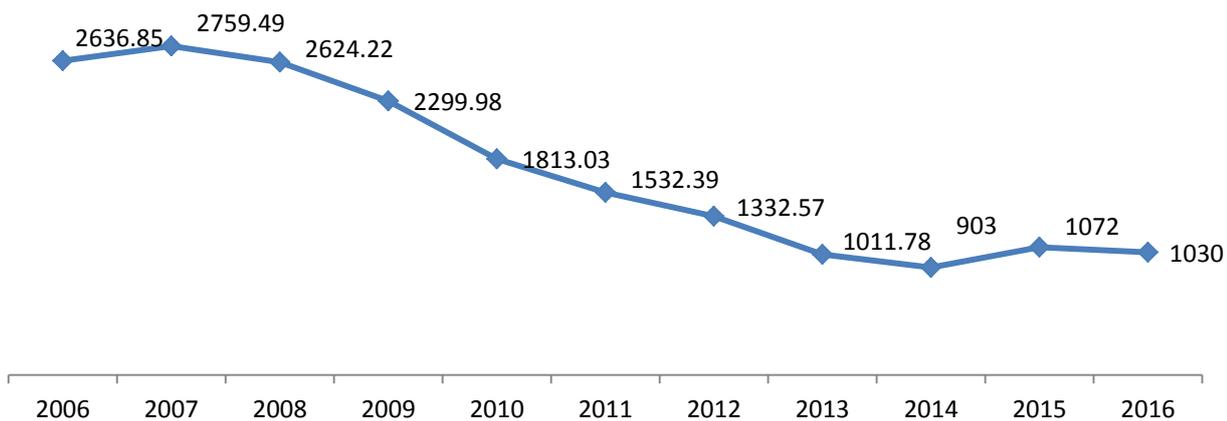


Figure 1.5: Accumulated Losses

The accumulated loss table 1.5 and figure 1.5 reveals the operating result of RRB in terms of reduction in losses. By deducting accumulated losses yearly it can be said that the performance of RRB is astonishing. RRB had the accumulated loss of 2636.85Crores in 2006 and it became 1030Crores in 2016. Each and every year it showed that reduction in total accumulated loss which means innovative strategies were used to reduce loss or increase profit .The downward slope of accumulated loss is a best positive performance indicator of RRB. By maintaining this status RRB will reach zero accumulated loss banks within a short span of period.

Table 1.6 Recovery performance of RRB

Particulars	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Recovery %	79.8	80.49	80.84	77.85	79.12	81.18	81.6	82.57	81.9	79.46	82.51

Source: Compiled from the various reports of NABARD

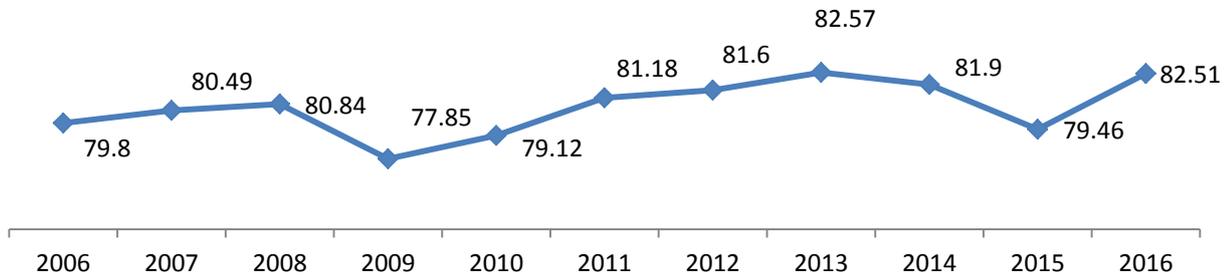


Figure 1.6: Recovery performance of RRB

Recovery performance of RRB is shown in the Table 1.6 and Figure 1.6 resulting that an average of 80% loan and advances were recovered by RRB during 2006 to 2016 period. It indicates the operating proficiency and stability. RRB achieved the higher recovery rate of 82.57% in 2013 followed 82.51% in 2016. The recovery performance never comes down of 76%, and from the evidence it ensures a well admissible credit recovery regulations were followed in these years. And this recovery position will also help in money management.

Table 1.7 Net worth (in Crore)

Year	Net Worth	Percentage Change
2006	4009.74	15.68
2007	4526.48	12.89
2008	6107.37	34.93
2009	8610.31	40.98
2010	10256.13	19.11
2011	12306.53	19.99
2012	15129.41	22.94
2013	18292.07	20.90
2014	21199	15.89
2015	23761	12.09
2016	26685	12.31

Source: Compiled from the various reports of NABARD

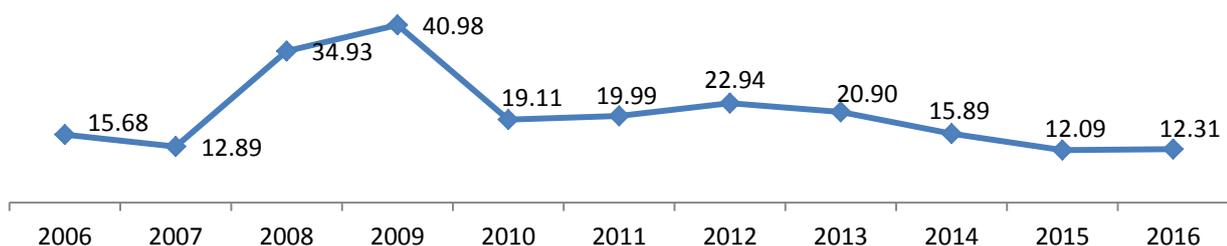


Figure 1.7: Net worth

Net worth is another performance indicator and here in the Table 1.7 and Figure 1.7 profitable position of RRB has been extracted. In 2006 net worth was rupees 4009.74 Crores and after 10 years in 2016 it became the net worth of 26685 Crores. RRB at their highest net worth of 40% increase in 2009 when they had net worth of 8610.31 Crores. In 2016 they attained net worth of 26685 Crores. A progressive impact in net worth can be analyzed in the figure, which shows the profitability of RRB during the period of 2006 to 2016.

V. CONCLUSION

The study is an attempt made on the performance analysis of Regional Rural Banks in India for the last ten years. Based on the secondary data which are collected from the annual reports of the NABARD (National Bank for Agriculture and Rural Development) from 2006 to 2016 study has been completed. Different financial performance indicators like No. of Branch, Networks, Reserves, Deposits, Investments, Accumulated Losses, Recovery Performances and Net worth have been taken into consideration. Simple Percentage variation analysis is used to evaluate the changes from the preceding year.

After considering all major financial performance indicators for analysis, it has been found that Regional Rural Banks of India have made a significant progressive impact during this period by resulting in Progressive branch expansions, well adequate precautionary position of reserves, status of accumulated increased investment, reduction in accumulated losses, keeping satisfactory recovery performance and well progressive net worth. It can be concluded that well maintained efforts have been taken on a regular basis by RRB and they achieved a higher progressive performance.

The study done under the limitation of analysis only on seven performance indicators and there are different indicators available, most relevantly author preferred indicators are only considered for this study. The study also directs a further area by adding more relevant information from the annual report of RBI (Reserve Bank of India) to check the performance and contribution made by Regional Rural Banks in the economic development of India.

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