

Regional Rural Banks – An Overview

History of RRBs:

A Regional Rural Bank is popularly known as "Gramin bank". The development process of RRBs started with the promulgation of an Ordinance promulgated on 26th September 1975 (which later on was replaced with Regional Rural Bank Act, 1976) with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. It was on 2nd October 1975, that the first RRB, named the Prathama Bank came into existence.

RRBs were set up on the recommendations of The Narasimham Working Group as at that time about 70% of the Indian Population was of Rural Orientation. It was in order to provide access to low-cost banking facilities to the poor, that the Narasimham Working Group (1975) proposed the establishment of a new set of banks, as institutions which *"combine the local feel and the familiarity with rural problems which the cooperatives possess and the degree of business organization, ability to mobilize deposits, access to central money markets and modernized outlook which the commercial banks have"*.

However, as RRBs came into existence during emergency period and thus this move is sometimes dubbed as a deviation tactic by Mrs Indira Gandhi.

Some of the features of this type of banking were :-

- **RRBs were mainly established to meet the credit requirement of small and marginal farmers, landless labour, and artisans of rural India with a focus on agro sector**
- **In few years RRBs penetrated every corner of the country and extended a helping hand in the growth process of the country.**

- **These were envisaged as a low cost financial intermediation structure in the rural areas to ensure sufficient flow of institutional credit for agriculture and other rural sectors.**
- **RRBs were expected to have the local feel and familiarity of the cooperative banks with the managerial expertise of the commercial banks.**

Objectives of Regional Rural Banks:

The importance of the rural banking in the economic development of a country cannot be overlooked. As Gandhiji said “Real India lies in Villages,” and village economy is the backbone of Indian economy. Without the upliftment of the rural economy as well as the rural people of our country, the objectives of economic planning cannot be achieved. In fact, the real growth of Indian economy lied in the freeing of rural masses from acute poverty, unemployment, and socio-economic backwardness.

Regional Rural Banks (RRBs) are oriented towards meeting the needs of the weaker sections of the rural population consisting of :

- **Small and marginal farmers,**
- **Agricultural labourers,**
- **Artisans,**
- **Small entrepreneurs,**
- **Mobilise deposits from rural households**

RRBs are expected to make credit available to rural households besides inspiring carefulness. Put it simple to ensure sufficient institutional credit for agriculture and other rural sectors.

The Credit Delivery System :

- **Grant of credit at cheap or concessional rates**
- **Lending to individuals belonging to weaker sections without checking the viability of the activity proposed to be undertaken.**

The Operational Area of RRB

The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State.

Structure of Regional Rural Banks :

In RRBs, there are three share holder namely Government of India (50% share), Sponser bank (35% share), and State Government (15% share). Thus, we can say RRBs are jointly owned by GoI, Sponsor Bank and respective State Government.

Role of RRBs / Gramin Bank :

The role of RRBs can not be ignored in present day banking as these gramin banks have played a major role in implementation of central and state government sponsored various programme of poverty alleviation like SGSRY, PMRGP, Antyabasai. Payment to aganwadi,. old age pension,. mid day meal ,scholarship to student, Indira Awas Yojana, labour payment to NAREGA beneficiary has effectively been carried by these RRBs.

Expansion of RRBs 1975 to 1990

Expansion of RRBs : Year	No of RRBs	No of RRB Branches
Dec. 1975	6	17
Dec. 1980	85	3279
Dec. 1985	188	12606
Mar. 1990	196	14443

Special Facilities Given by RBI and Other Institutions to RRBs So That They Can Manage Competition from Stronger Banks like Commercial Banks :

With a view to facilitate RRBs operations, the RBI gave RRBs direct access to refinance assistance at a concessional rate of three per cent below the bank rate.

- **Allowed to maintain a lower level of SLR than commercial banks.**
- **Allowed to pay half per cent more interest on all deposits except those of three years and above.**
- **Sponsor banks IDBI, NABARD, SIDBI, and other FIs are statutorily required under the RRBs Act to provide managerial and financial assistance to RRBs.**

Regulatory Control

NABARD is the regulatory authority of Regional Rural Banks

Organizational Structure :

Organizational Structure for RRB's varies from branch to branch and depends upon the nature and size of business done by the branch. The Head Office of an RRB normally had three to seven departments.

The following is the decision making hierarchy of officials in a Regional Rural Bank.

- **Board of Directors**
- **Chairman & Managing Director**
- **General Manager**
- **Chief Manager/Regional Managers**
- **Senior Manager**

- **Manager**
- **Officer / Assistant Manager**
- **Assistants**

Why Regional Rural Banks Lost Their Focus :

- **The village politics also affected the RRBs. Soon the lending in rural areas was politicized and poor and need farmers and other sections of rural India were ignored;**
- **The originally envisaged low cost structure for RRBs was also washed away after the Obul Reddy report which brought parity of pay scales with Commercial Banks.**
- **With the expansion of RRBs by starting new RRBs not on considerations of business needs but political reasons, the number of RRBs went upto 196 at one time and with expansion of branch network, they started incurring huge losses.**

Amalgamation of RRBs :

GoI was forced to start the reform process as several RRBs suffered humongous losses and had become unviable. During a review carried out by GOI in the year 2009 it was found that the Capital Risk Weighted Assets Ratio (CRAR) of the RRBs were too low. Therefore, Dr. K.C Chakrabarty Committee suggested bringing the CRAR of RRBs to at least 9 percent in a sustainable manner. The Committee inter-alia recommended recapitalisation support to the extent of ` 2,200 crore, to 40 RRBs.

As several Committees suggested for creation of viable RRBs by amalgamation of unviable RRBS, finally it was decided to amalgamate some of them on grounds of contiguity in a particular region. The process of amalgamation has continued till June, 2014 and out of the originally 196 RRBs, now we have only 56 RRBs in July 2014.

Present Status (August 2014) and Future Plans for Regional Rural Banks :

- **As per reports of June, 2014, Government of India has put on hold further amalgamation of RRBs. As per newspaper reports (June 2014), GoI has conveyed to the sponsor banks that no fresh proposal of amalgamation of RRBs should be taken up at present.**
- **Therefore, at present the focus for RRBs will be on improving their performance including their profitability.**
- **A Bill to amend the RRB Act is being considered by the parliamentary standing committee on finance. The amendments are aimed at increasing the pool of investors to tap capital for RRBs. Thus, Government is exploring a new class of investors to raise capital for these banks. In a communiqué to the heads of public sector banks, the finance ministry said there was a need to tap other sources of capital for RRBs.**
- **Government of has been making various effort to make RRBs a profitable institution by infusing fresh capital, by allowing RRBs .to lend commercial projects, consortium finance, foreign currency, insurance business on referral basis.**
- **RRBs are also fast moving towards core banking solution for effectiveness and to increase customer base. Over 20 RRBs are already on CBS platform**

Performance of Regional Rural Banks in Recent Times:

The total number of RRBs stood at 82 in March 2011. As amalgamation process was continuing the total number of RRB fell to 64 in March 2013. It further fell to only 57 in March 2014. At present, the number of RRBs is 56 (August 2014).

National Bank for Agriculture and Rural Development (Nabard), the regulating body for rural banks, has reported that the agricultural credit disbursement by RRBs has been short of the target. The low disbursal of farm credit by RRBs was due to amalgamation and capital adequacy limitations, as these banks had to maintain a capital adequacy ratio of at least nine per cent, it said, adding RRBs didn't have any source of capital other than paid-up capital.

Status of RRBs as on 31st March of 2013 and 2014

Parameters	March 31, 2013	March 31, 2014
No. of RRBs	64	57
Share Capital (Rs. Cr.)	197	197
Share Capital Deposit (Rs. Cr.)	6001	6170
Reserves (Rs. Cr.)	13247	15262
Profit-earning RRBs	63	57
Net profit of RRBs (Rs. Cr.)	2273	2744
Acculated losses (Rs. Cr.)	1091	949
Deposits (Rs. Cr.)	211488	239511
Loan and advances (Rs. Cr.)	137078	218110
Non-performing loans * (%)	6.08	4.35

Latest News and Progress in Regional Rural Banks in 2013-14

(1) Performance of RRBs :

- After amalgamation, the number of RRBs in the country **as on 31 March 2014 were 57, with a network of 19,082 branches covering 642 notified districts in 26 States and the UT of Puducherry.** (However, as on 20th August, 2014, the number of RRBs is only 56).
- The aggregate deposits of RRBs registered a growth of 13 per cent, borrowings 34 per cent, loans and advances (outstanding) 17 per cent and investments 2 per cent, respectively during the FY 2013-14
- The provisional financial results of RRBs for the year 2013-14, indicates that all 57 RRBs have earned profits aggregating Rs.2,833 crore.
- The proportion of RRBs that are sustainably viable *viz.*, earning profits and carrying no accumulated losses has increased from to 86 per cent (49 out of 57) as on 31 March 2014.
- The aggregate reserves of RRBs increased to Rs.15,736 crore and net worth increased to Rs. 21,199 crore as on 31 March 2014.
- There were 8 RRBs with accumulated losses and their accumulated losses had decreased by 17 per cent as on 31st March 2014, over the previous year.
- The recovery performance of RRBs improved marginally from 81.2 per cent as on 30 June 2012 to 81.9 per cent as on 30 June 2013. Nine RRBs had recovery of more than 90 per cent, 19 RRBs had recovery in the range of 80 to 90 per cent, 28 RRBs had recovery in the range of 60 and 80 per cent and one RRB had recovery of less than 60 per cent. The aggregate gross NPA of

all RRB declined from 6.1 per cent as on 31 March 2013 to 4.4 per cent as on 31 March 2014.

(B) Committee on Human Resource Policy for RRBs - Post CBS

As directed by GoI, a Committee was constituted in NABARD to revisit the existing Human Resource Policy for assessment of manpower/staffing pattern, skill development needs of RRBs in the event of implementation of CBS and other related technological up-gradation. The committee submitted its report to GoI in November 2012. The tenure of the Committee was extended upto 30 June 2013 with amendment of terms of reference to prepare roadmap for implementation of the recommendations and monitoring of the same. The Committee finalised the RRB- wise road map and time frame for implementation of technology adoption by all RRBs as per the amended terms of reference. The second Part of the Report of the Committee was submitted to GoI for consideration during March 2013. Approval of GoI in the matter is awaited.

(C) Committee for fixing Inter-Se seniority of RRBs – Post amalgamation

As advised by GoI, a Committee was constituted by NABARD, with members of 11 new Sponsor banks of amalgamated RRBs to fix the norms for Inter-Se seniority of RRBs in post amalgamation scenario. After approval from GoI, the guidelines on fixation of Inter-Se seniority of RRB staff post amalgamation as submitted by the Committee was issued to all concerned in November 2013.

(D) Recapitalisation of RRBs

Dr. K.C. Chakrabarty Committee had reviewed the financial position of all RRBs in 2010 and recommended for recapitalisation of 40 out of 82 RRBs for strengthening their CRAR to the level of 9 per cent by 31 March 2012. Accepting the recommendations of the committee, the GoI alongwith other shareholders decided to recapitalise the RRBs by infusing funds to the extent of `2,200 crore, with proportion of shareholding being 50:35:15 for GoI : Sponsor Banks : State Governments. As on 31 March 2014, an amount of `2,076.51 crore was released to 38 RRBs in 20 States. The released amount includes GoI's contribution of `1,038.14 crore, State Government's contribution of `311.49 crore and Sponsor bank's contribution of `726.78 crore. The recapitalisation is complete in respect of 38 RRBs (five each in Odisha and Rajasthan, three each in Madhya Pradesh and West Bengal, two each in Uttarakhand, Jharkhand, Chhattisgarh, Bihar,

Maharashtra and Jammu & Kashmir and one each in Assam, Arunachal Pradesh, Nagaland, Tripura, Mizoram, Karnataka, Tamil Nadu, Gujarat, Manipur and UT of Puducherry). Govt. of Uttar Pradesh has not released any amount in respect of two RRBs identified by the committee. An additional recapitalisation fund of `96.92 crore has been released to Central Madhya Pradesh Gramin Bank including GoI's contribution of `48.46 crore, State Government's contribution of `14.54 crore and Sponsor Bank's contribution of `33.92 crore.

(E) Appointment of Chairman of RRBs

As per the guidelines issued by GoI for selection of the Chairman of RRBs, the Sponsor Bank will have a Selection Committee with representatives from RBI, NABARD, Sponsor Bank and an external expert. The recommendation of this Committee will be subject to approval by the Board of the Sponsor Bank for appointment of Chairman of RRBs.

(F) Branch Expansion

As a strategy towards broader financial inclusion, the RRBs were advised to undertake an aggressive branch expansion programme particularly in hitherto unbanked areas. RRBs had opened 913 and 947 new branches during 2011-12 and 2012-13, respectively. During 2013-14, the RRBs opened 438 branches, **taking the cumulative number of branches to 19,082 as on 31 March 2014.** The RRBs have been allocated 22,000 villages and at places where opening of brick and mortar branch is not considered viable, the banks are allowed to start Ultra Small Branches (USBs) and thereafter at places where the USB reaches the desired level of business, the same can be upgraded into regular bank branches.

Source : NABARD website

[Link for List of Regional Rural Banks, Alongwith Their Addresses, Head Office etc.](#)

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