Regional Rural Banks in India: Case Study of Lucknow District

Neha Singh

Research Scholar,
Department of Applied Economics,
University of Lucknow

***Abstract*: In this paper, an attempt is made to analyse the performance of Regional Rural Banks in India through various parameters such as number of RRBs, branch expansion, district coverage, advances and deposit mobilization. For the analytical study of the parameters various statistical tools have been used such as mean, standard deviation, variance, coefficient of variance and t-test.**

The study has analysed that even though the process of amalgamation has considerably declined, the number of RRBs has significantly improved their financial performance. The study has reported that there is an uneven growth of RRBs where backward areas have been given least priority but it is also noticed that profitability position of RRBs has increased over a decade.

***Keywords*: Gramin Bank of Aryavart, bank officials, account holders, Lucknow district.**

Introduction

Rural Banking in India means the financial institutions which have been setup in rural areas for economic development and the betterment of weaker section of the society. The RRBs have contributed significantly in the multiagency approach of the govt. to provide agricultural and rural credit in rural India. Considering the requirement of banking services for rural people the Government of India appointed a Working Group under the Chairmanship of M. Narsimham, who examined the problems of rural finance, suggested a new form of bank called Regional Rural Banks to provide low cost banking facilities to the poor.
The Regional Rural Banks (RRBs) were established on October 2, 1975 under Regional Rural Banks Act, 1976 with a view to develop the rural economy by providing finance for the development of agriculture, trade, commerce, industry and other productive activities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in the rural areas.. RRBs are jointly owned by the Govt. of India in the proportion 50:15:35 by Central Government, the concerned State Government and the sponsoring bank.

Genesis of Indian Regional Rural Banks

After having sovereignty, the main aim of the Indian government was to improve credit policy in our country (mainly in rural area) and expand institutional financing keeping in view to cut down the role of non-institutional credit sources like money lenders, traders, landlords, commission agents, credit form relatives etc. Indian government after independence has expanded institutional financing to cater the needs of rural people and to improve credit policy in rural areas. With the emphasis on rural India, All India Rural Credit Survey Committee (AIRCSC) (1951) perceived that cooperative banks can be a possible solution to the problem of rural finance.
Cooperative banks were supported by RBI and their respective state governments. Much was expected from the cooperative banks but because of not having the adequate financial resources it was unable to meet the credit requirement of rural sector. All India Rural Credit Survey Committee 1969 recommended a multi-agency approach to fund the rural sector.
The Banking Commission (1972) reported that rural masses were still untouched despite large expansion of branches of commercial banks. The commission recommended to setup an alternative financial institution for rural peoples which can fill the credit gap and work as a bridge; providing low cost banking facilities to the poor. Based on the suggestions of the Working Group under the Chairmanship of Sh. M. Narasimham the Government of India established Regional Rural Banks – a separate institution mainly for rural credit. Regional Rural Banks came into existence under the provisions of an Ordinance passed on September 1975 under the RRB Act. 1976. Based on the recommendation of Working Group, Five RRBs were set up to cater rural needs. First RRB was established on October 2, 1975, the Prathama Bank with authorized capital of Rs. 5 crores, Syndicate bank as sponsor bank in Moradabad, U.P. Other banks are Gour Gramin Bank (UBI) in Malda, West Bengal; Gorakhpur Kshetriya Gramin Bank (SBI) in Uttar Pradesh; Haryana Krishi Gramin Bank (PNB) in Bhiwani, Haryana; Jaipur-Nagpur Anchalik Gramin Bank, Rajasthan which were sponsored by different commercial banks as given respectively. These banks covered 11 districts of these five states. Objectives of Regional Rural Banks (RRBs) are to take the banking services & facilities to the doorstep of rural people, to make available institutional credit to the weaker section, to reduce participation of informal credit agencies, especially the unscrupulous money lenders, traders, landlords etc. and to generate employment opportunities in rural areas to bridge the gap between rural credit created by cooperatives and commercial banks with the local touch of RRBs.
With a modest beginning of 6 RRBs in 17 branches covering 12 districts, 0.1cr. advances, 0.2 cr. deposits and 50% C/D ratio in December 1975 the number of RRBs increased to 196 RRBs with 13353 branches in 1987 operating in 363 districts across the country.

The Government of India initiated a process of structural consolidation of RRBs by initiating amalgamation of RRBs under Amalgamation Act 2005. After a phase of consolidation between September 2005 and March 2010, RRBs of the same sponsor banks within a state were amalgamated bringing down their number from 196 to 82. In the current phase of consolidation which began in October 2012 by amalgamation of RRBs across sponsor banks within a State to have one RRB in each state and 2 or 3 RRBs in large states, the number of RRBs has further reduced to 56 RRBs in 2016 with over 20000 branches in 645 districts.
The RRBs since its inception have become integral part of the rural credit delivery system taking significant steps in attaining banking services and mobilizing the rural savings of the poor people even with small amounts. In this backdrop, this paper makes an effort to evaluate the performance of RRBs in India and offers suggestions to improve the performance.

RESEARCH METHODOLOGY OBJECTIVES

- To evaluate the performance level of RRBs in India.
- To examine the key performance indicators of RRBs in India.
- To offer suggestions to improve the performance of RRBs.

HYPOTHESES

H0: There is significant relation and no difference in performance of branch expansion of RRBs in study period. (p-value < 0.05 reject H0)
H1: There is no significant relation and difference in performance of branch expansion of RRBs in study period. (p-value > 0.05 accept H0)
(Note: If the p-value is less than 0.05, we reject the null hypothesis stating that there's no difference between the means and conclude that a significant difference does exist.)

DATA BASE

To accomplish the objectives of the paper, the secondary sources of data were adopted. The main source of the data is published annual statistical reports of RRBs, NABARD and published articles.

PERIOD OF STUDY

This paper purposively chooses over a decade period (20 yrs.) from 1994-95 to 2016-17.

TOOLS OF ANALYSIS

To analyzing the collected data mean, standard deviation (SD), variance, co-efficiency of variation (CV), t-test, growth rate and percentages have been used in this paper.

LIMITATION OF THE STUDY

- The study was restricted to only five key areas of the bank performance indicators i.e. number of branches, districts covered, deposit mobilized, loan advanced and credit-deposit ratio due to time constraint.
- Analysis may be influenced by some subjective factors like knowledge, judgement and can vary person to person and situation to situation.

DATA ANALYSIS

Table 1.1 shows that Gramin Bank of Aryavart had 113 branches in 1994-95 with 592 employees which rose to 704 branches and 3300 employees in June 2017. Since last 3 years the bank has proposed to open 102 branches (91 SLBC and 11 non SLBS) for want of RBI license the bank could not open any branch, however 91 USBs were opened to serve the service area effectively. Now the RBI has given permission to open new branches for which premises have been selected and after completion of building construction, functioning of premises, and providing other basic aminities branches will be opened.GMCO (General Manager's Camp Office) has been established in Aligarh to supervise operations of 6 Regional Office, viz., Aligarh, Agra, Etah, Hathras, Mainpuri And Hardoi. Before amalgamation Avadh Gramin Bank (now Gramin Bank of Aryavart) had 293 branches operating in 3 districts namely Hardoi, Unnao and Lucknow however in 2016 the bank has a network of 651 branches and 12 regional offices operating in 15 districts of Uttar Pradesh which are 51 in Agra, 71 in Aligarh, 86 in Barabanki, 40 in Etah, 10 in Faizabad, 52 in Farukkabad, 28 in Firozabad, 36 in Hathras, 62 in Hardoi, 38 in Kannauj, 27 in Kasganj, 40 in Manipur, 15 in Mathura, 62 in Hardoi, 57 in Unnao and 38 in Lucknow.

Net Profit, Business per branch and employee:

Productivity of the bank is measured by the quantity of total bank output per unit of input used in production. In bank's productivity establishment expense and operating expense are considered as input and operating profit as output. The indicators commonly used for assessing productivity of banks are business per employee, business per branch, advances per employee and branch, number of accounts per employee and branch. However, there is no consensus on which the best measure for banks is. In the Indian context, we need to be clear about which approach is most suitable. Banks use profit, income, investment, total deposits and advances as outputs and total number of branches, employees, accounts, operating and interest cost as inputs. Human resource is the most important asset of an organization and banking sector is no exception to it, thus, employee productivity is measured using Business per employee ratio. In the study business per branch, business per employee, net profit per employee and net profit has been used to analyse productivity.
Table 1.1 shows a comparative position of coverage and productivity of GBA pre and post-merger. It shows that number of branches in 1995 were 113 in which 589 employees were working. This number rose to 651 branches of GBA where 3295 employees were employed in 2016. Paired T-test was conducted to analyse the difference in coverage area of bank. T-test (P value) 0.005 was less than alpha value 0.05 indicating a significant difference in coverage area of the bank. There is no correlation in number of employees

and branches pre and post-merger. Table 1.1 also shows that the productivity of the bank has increased pre and post-merger. Business Per Branch, Business Per Employee, Net Profit Per Employee were 198.03, 37.99, 0.32 respectively, these numbers rose to 3231.59, 638.47, 5.53 in 2016. On conducting Paired T-test it was found that there is significant difference pre and post-merger as T-test (p value) was 0.02 of BPE and BPB, 0.01 of NPE which is less that alpha value 0.05. However, it was found that there is no significant difference in net profit of the bank as t-test (p value) was 0.09. it is visible that there is positive correlation in productivity pre and post-merger indicating that increase in coverage area has positively affected the productivity of the bank.

Table 1.1

COMPARITIVE POSITION OF COVERAGE AND PRODUCTIVITY							
	years	No of branches	No of employees	BPB	BPE	NPE (lac)	net profit
PRE MERGER	1995-96	113	589	198.03	37.99	0.32	189.75
	1997-98	113	586	299.53	57.76	0.88	514.08
	1999-00	114	582	428.54	83.94	1.25	726.09
	2001-02	114	579	567.06	111.65	1.31	760.72
	2003-04	118	573	689.56	142.00	2.36	1353.82
	2005-06	293	1472	825.35	164.29	1.59	2341.04
POST MERGER	2006-07	293	1463	956.25	191.51	0.51	1869.53
	2007-08	288	1445	1139.59	227.13	3.99	5760.30
	2009-10	306	1416	1598.02	345.34	5.75	8137.74
	2011-12	333	1507	2040.33	450.85	2.18	3278.62
	2013-14	651	2947	2470.27	545.69	5.88	17314.91
	2015-16	651	3295	3231.59	638.47	5.53	22509.27
COMPARATIVE STUDY	**PRE- MERGER**						
	Mean	144.17	730.17	501.35	99.61	1.29	980.92
	SD	72.94	363.47	237.80	48.82	0.68	767.63
	CV	50.59	49.78	47.43	49.02	53.30	78.26
	POST- MERGER						
	Mean	420.33	2012.17	1906.01	399.83	3.97	8311.09
	SD	179.35	866.42	857.66	177.21	2.21	8290.72
	CV	42.67	43.06	45.00	44.32	55.63	99.75
	R	**0.6493**	**0.7168**	**0.9901**	**0.9974**	**0.7600**	**0.9677**
	T-test	**0.0052**	**0.0050**	**0.0027**	**0.0023**	**0.0130**	**0.0915**

Source: Data Compiled from Annual Reports of Gramin Bank of Aryavart (1995-2017)

Deposits, Advances and Recovery of Advances:

Deposits are the base for the bank and are backbone to its credit expansion. The main and major source of deposit mobilization has been our endeavor to motivate and inculcate savings habit among the villagers and to mobilize maximum low-cost deposits with a view to make available low-cost funds to facilitate concessional lending by the bank. Emphasis has been given on better customer service and on low cost deposits to achieve the targets set out under MOU (Memorandum of Understanding). In terms of advances issued by RBI, advances to borrowers are classified into 'performing' and 'non-performing' assets based on recovery of principal interest. Non- performing assets (NPAs) are further classified as Sub Standard, Doubtful and Loss Assets and provision thereon is made in accordance with the prudential norms prescribed by the RBI from time to time. Provisions in respect of NPAs and unrealized interest are deducted from total advances. Specific provisions in respect of NPAs are made based on the management's assessment of the degree of impairment of advances, considering the minimum provisioning norms prescribed from time to time.

Recovery of advances is main factor for recycling of funds and continuity of the credit flow as recovery is an integral part of the credit management. In present banking system timely recovery plays a vital role in the productivity as it has direct effect on profitability, which is one of the essential parameters for the survival of the bank. The bank lends its funds keeping in mind the principles of security and financial viability of the projects. However, with the introduction of prudential norms by the RBI in respect of income recognition, asset classification and provisioning, it is imperative for the banks to manage their credit portfolio effectively to keep NPA level at minimum. Under the continuous ongoing process of reforms in the financial sector and also for the survival in the changed competitive atmosphere, the need of the hour is to monitor and follow up the advances with utmost care for promoting and involving the recovery position.

Table 2.2 shows a comparative position of deposits advances and recovery along with its growth rate pre and post-merger conducting a statistical test. It shows that deposits along with growth rate in 1995 were 17530.55, 21.96, 4847.00, 9.56, 1098.00, 57.00 which rose to 1200342.25, 11.02, 903424.52, 17.09, 403544.00, 76.14 respectively. Paired t-test shows that there were significant differences pre-merger and post-merger in deposits and advances having t-test p value of 0.02 and 0.04 respectively which is lower than alpha value of 0.05. However, recovery has shown no significant difference (t-test p value is 0.06) even though amount of recovery has increased but in proportion of deposits and advances it has shown no significant change. A positive correlation of 0.9 exists between deposits and advance and recovery due to increase in coverage and productivity pre and post-merger of the bank.

Table 2.2

COMPARITIVE POSITION OF DEPOSITS AND ADVANCES

	years	deposit	Growth deposit %	advance	Growth advance %	Recovery	Growth recovery %
PRE- MERGER	1995-96	17530.55	21.96	4847.00	9.56	1098.00	57.00
	1997-98	27424.02	26.31	6422.92	16.61	1321.00	59.25
	1999-00	39461.42	16.43	9391.87	17.87	2189.00	60.16
	2001-02	52658.06	15.00	11986.55	12.73	3648.73	61.25
	2003-04	62938.79	8.17	18430.06	15.76	10421.70	70.52
	2005-06	170426.31	19.73	71402.47	25.62	15608.21	82.24
POST MERGER	2006-07	194241.15	13.97	85939.75	20.36	40387.00	83.48
	2007-08	225219.72	15.95	102980.63	19.83	45337.00	80.49
	2009-10	330634.89	21.38	158360.34	17.49	52772.00	80.06
	2011-12	435394.03	11.93	244036.93	26.25	68794.79	75.61
	2013-14	989837.81	7.51	618307.36	19.13	320967.79	69.83
	2015-16	1200342.25	11.02	903424.52	17.09	403544.00	76.14
COMPARATIVE STUDY	**PRE- MERGER**						
	Mean	61739.86	17.93	20413.48	16.36	5714.44	65.07
	SD	55722.58	6.26	25433.64	5.44	5955.75	9.61
	CV	90.25	34.89	124.59	33.24	104.22	14.78
	POST- MERGER						
	Mean	562611.64	13.63	352174.92	20.03	155300.43	77.60
	SD	426321.52	4.75	333748.25	3.31	162703.97	4.81
	CV	75.78	34.84	94.77	16.52	104.77	6.19
	R	**0.8757**	**0.4658**	**0.9014**	**-0.6157**	**0.9886**	**-0.5895**
	T-test	**0.0229**	**0.1303**	**0.0475**	**0.3080**	**0.0667**	**0.0652**

Source: Data Compiled from Annual Reports of Gramin Bank of Aryavart (1995-2017)

FINDINGS

The study has analysed that even though the process of amalgamation has considerably declined, the number of RRBs has significantly improved their financial performance. The study has reported that there is an uneven growth of RRBs where backward areas have been given least priority but it is also noticed that profitability position of RRBs has increased over a decade. In depth study of these parameters are discussed in the next chapter.

SUGGESTIONS

In the current study it is observed that RRBs have failed to maintain the rate of growth in deposits, thus it is needed to design an appropriate deposit mobilization and loan advancement policy on which the survival of RRBs depends. As it can be seen, there is a wide gap in C/D (credit-deposit) ratio between the RRBs and commercial banks. So, it is recommended to make consistent efforts to augment the C/D ratio of RRBs at par with commercial banks. There is also a need to open requisite number of branches in unbanked area that provides equal opportunities to everyone.

REFERENCES

[1] Annual Statistics of NABARD, Mumbai

[2] Reserve Bank of India (2000-01 to 2015-16). “Report on Trend and Progress of Banking of India.” New Delhi.

[3] Kumar Satish (2017). Performance Evaluation of Regional Rural Banks RRBs in India. *International Journal of Management, IT & Engineering Vol. 7 Issue 4*

[4] Madan Sweety (2014). Financial Performance of Regional Rural Banks in India For Post-Merger Period: An Analytical study. *International Research Journal of Social Science and Management Volume 4, Number 2, pp. 176-183*

[5] Baligatti Dr. Y. G. (2016). Performance Evaluation of Regional Rural Banks in India. *International Journal of Multifaceted And Multilingual Studies Volume-III, Issue-IV, pp. 1-10* Chandraiah M. (2015). Current position of RRBs in India. *BIMS International Journal of Social Science Research*
[6] Tapan, Neeta (2008). *Micro Credit, SHGs and Women Empowerment*. New Delhi, India: New Centuary Publication.
[7] Dwivedi, Amit Kumar (2012). *Rural Development in Post-Colonial Era*. New Delhi: Bookwell Publication.
[8] Sukhwal, Anita (2012). *Rural Entrepreneurship Development in Liberalised Era*. New Delhi: Bookwell Publication.