

## **EVOLUTION OF REGIONAL RURAL BANKS**

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### **ABSTRACT**

*Regional Rural Banks are working at the bottom rung of banking organization in India. They have been set up with the basic objective of providing credit assistance to the rural population, who has limited access to the formal credit system. The area of operation of RRBs is limited as per Government of India notified, to include one or many districts in a State. The RRBs came into existence to facilitate poor section of the rural areas, in 1975, during the regime of former Prime Minister of India, Indira Gandhi, and the Narsimhan working Group recommended to set up RRBs, as the major population about 70% exists in rural areas. The RRBs are owned by the Governments at the center, the state and the sponsor banks capital share being in ratio of 50%, 15% and 35%. RRBs created to meet the excess demand for institutional credit in the rural areas, particularly among the economically weaker section targeted population. The paper made an attempt to know the reforms taken in Regional Rural Banks since from its inception and major decisions taken in regard.*

**KEYWORDS:** RRB, Recapitalization, Rural economy, Amalgamation

### **Introduction**

Bank is a financial organization which keeps money in accounts for its clients, lends money, exchanges currency and facilitates transmission of funds. The origin of Banks took long back during British Raj with establishment of Bank of Bengal in Calcutta during 80's. In 1975 the Government of India has taken major decision though the establish and nationalization of banks has resulted in opening branches in remote and unbanked areas still they were unable to reach the rural people and the villages where majority of people lived in India. So the Government of India an ordinance on September 26, 1975 to set up a dedicated bank to serve people leaving in far flung rural areas of India. Thus Regional Rural Banks came in to existence in India. The RRBs had a modest beginning with setting up of 5 banks on the October 2<sup>nd</sup>, 1975 it has witnessed further for huge growth of RRBs and in 90's there were 196 RRBs serving the rural people with its 14443 branches. The Regional Rural Banks have been successful in fulfilling the objective with which were established.

### **Development of Regional Rural Bank in India**

RRBs commenced their business of Banking activity on 2<sup>nd</sup> October 1975 with Prathama Grameena Bank. When the reform process in banking sector took place RRBs were came in to picture more. In 1969, 14 major Commercial banks nationalized and the objective, inter alia stands as to control the heights of economy. The nationalized banks thus become major tool for linking the rural banking. The further process of supplementing the cooperatives and commercial banks was to establish of RRBs in 1975 with the equity participation of Sponsor Banks, Central and State Government.

In further moves the by 1982 the RBI established NABARD to promote or supervise institutions. Though several efforts were made to increase institutional credit for agriculture and rural landings but severe mismatches were found among. Further the GoI in consult with RBI and NABARD started reform process of recapitalizing of RRBs. Extant lending restrictions were removed, they were made available for investment of their surplus fund. In continue, human resource development and Organizational Development Initiatives (ODI) were taken up by NABARD with funding support of the Swiss Development Corporation and with the tools of training and exposure visits, ODI, technology support, computerization and use of IT, system development, etc. for business development and productivity improvement. By end March 2005, there was a remarkable improvement in the financial performance of RRBs as compared to the position prevailing in 1994-95.

The number of banks reporting profits went up to 166 of the 196 RRBs. As on 31 March 2006, of the total 133 RRBs (post merger), 111 posted profits and 75 of these RRBs were sustainably viable organizations having no accumulated losses as also posting current profits. GoI initiated the process of structural consolidation of RRBs by amalgamating RRBs sponsored by the same bank within a State as per the recommendations of the Vyas Committee (2004). The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity / marketing efforts, etc. and also derive the benefits of a large area of operation, enhanced credit exposure limits and more diverse banking

activities. As a result of the amalgamation, the number of RRBs was reduced from 196 to 133 as on 31 March 2006, thus there are 56 RRBs existed in India. Deposit mobilization is one of the important banking variables. It all depends upon the savings habit and capacity of the people leaving in area in which the bank is operating. Other factor influencing is rate of interest. Deposits mobilized by the RRBs play a key role not only as an important source of funds but also as an instrument for promoting savings and banking habits among the rural people.

### **Organization Structure of RRBs in India**

The authorized capital of RRBs is fixed at one crore and its issued capital at Rs2lakh. Out of the issued capital 50% is to be subscribed by Central Government, 15% by concerned State Government and 35% by their respective Sponsored Banks. The working and all the affairs are directed and managed by their Board of Directors. The Board of Directors consists of chairman, three directors to be nominated by the Central Government concerned, and not more than 3directors to be nominated by the Central Government and his term of office does not exceed five years. The State Bank of India is one of the major commercial Bank is having Regional Rural Banks, there are 30 RRBs in India under which and it is spread in 13 states across the country. The number of Branches in SBI Regional Rural Banks is more than 200. RRBs plays vital role in Indian rural economy, they act as agencies to provide institutional credit support in rural areas.

### **Functions of Regional Rural Banks**

RRBs are authorized to conduct the business of banking as per the Banking Regulation Act and may also allowed in engaging other activities of business specified in Section 6(1) said Act. RRB undertakes the business of

- Lending loans to and advances to small and marginal farmers and agricultural abourers, whether individually or in groups, and to cooperative societies, including agricultural marketing societies, agricultural processing societies, cooperative farming societies, primary agricultural credit societies or farmers' service Societies, primary agricultural purposes or agricultural operations or other related purposes
- Granting loans and advances to artisans, small entrepreneurs and persons of small means engaged in trade, commerce, industry or other productive activities, within its area of operation.

The Reserve Bank of India has brought RRBs under the ambit of priority sector lending on par with the commercial banks. They have to ensure that forty percent of their advances are accounted for the priority sector. Within the 40% priority target, 25% should go to weaker section or 10% of their total advances to go weaker section.

### **Methodology of Study**

The objective of the paper is study the reforms in Regional Rural Banks since its inception. The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, articles and thesis. Available secondary data was extensively used for the study.

### **Reforms in Regional Rural Banks since Inception**

Regional Rural Banks have been set up with an objective of uplifting the rural economy and to provide the basic banking aid to rural areas of the country. Since their inception they are struggling in this regard though they have several problems surrounded with, most of the RRBs are incurring the losses leading to impact on the economic viability of the banks. Therefore the government of India and Reserve Bank of India has formed the several committees to from time to time to look after the problems concerned to the functioning of Regional Rural Banks. The major recommendations of them are,

#### **a) Working group on Rural Banks, 1974 (Narsimhan Committee)**

The group recommended the establishment of Regional Rural Banks and gave certain emphasis on viability. The committee was with the view that certain degree of exemption is permitted with exemption in existing banking laws and regulations. On the recommendation of the committee RRBs were set up. In wake of financial sector RRBs are now being subjected to the regulatory norms of Commercial Banks.

#### **b) M.L.Dantwala Committee, 1977**

The committee was set up with recommendation of Reserve Bank of India in the year 1977, which was in optimistic view regarding the viability of Regional Rural Banks. Committee has expressed view that RRBs had the potential and capabilities to attain financial viability which can become profitable institution with its certain plans and strategies. The committee has suggested that RRBs should not restrict itself towards some selected areas instead it should take integral part in credit structure of rural areas covering the jurisdiction of

one district and population of 10-20lacks and with the reference of Chakra it is advised to transfer rural branches of commercial banks should be transferred to Rural Banks. On the basis of recommendation of committee the number of RRBs has increased to 196 in 1987 and this expansion has made RRBs important component rural credit system. The chairman of Regional Rural Banks was appointed by the Government of India in constitution of Reserve Bank of India on the other hand National Bank for Agriculture and Development (NABARD) was formed with the constitution of Government of India.

**c) Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD)**

CRAFICARD was set up by Reserve Bank of India it has examined the RRBs role in rural credit system and submitted its report in 1981. It has recommended that losses incurred by the RRBs should make correct by their shareholders in their respective share holding proportion. As RRBs were more suitable for rural development the committee has recommended for setting up of their branches in rural areas more. Moreover the areas of north eastern are difficult to adopt banking activities within them so they are advised to approach them with different ways and allowed to cover large area of finance and all categories of people for all purpose.

**d) Working group on RRBs(Kelkar Committee, 1984)**

The working committee was formed with the view to review various aspects of RRBs functions so which could take decisions in order to strengthen their overall capabilities. It has suggested that small and uneconomic Regional Rural Banks are to be merged in the interest of making economic viability. And it has advised to share the accumulated losses of those RRBs in their equity proportion further the committee emphasized the involvement of sponsor banks in functioning of RRBs.

**e) Agriculture Credit Review Committee, 1989**

The committee was formed under the chairmanship of Dr. A.M.Khusro, they have found with some serious problems and back steps in functioning of RRBs such as decline in profits, poor recollection and various problems relating to management and their staffs. The committee has found that miss utilization of loan amount, willful defaults of loans, no fallow ups, advancing benami loans and lack of interest of employees of RRBs. In order to correct these all problems the committee has recommended for merger of RRBs to make them viable.

**f) Committee on financial system (Narsimhan Committee, 1991)**

The committee has recommended for impart of viability of RRBs, and they have to engage in all the banking activities which they advised not to restrict themselves to the targeted population and area. It is necessary to evolve the rural banking structure which would combine the advantage of local character of RRBs

**g) Committee Restructuring of RRBs (Bhandari Committee, 1994)**

Bhandari Committee recommended greater autonomy of sponsor bank in the appointment of Chairman and General Manager of Regional Rural Banks. Various changes were made in decision making systems of RRBs in view of restructuring scheme of Government of India. The committee has identified 49RRBs for comprehensive restructuring. The committee has also recommended for relaxations in norms for lending and non funding business, branch relocation, deregulation of interest rate and etc.

**h) Working group on funds management in RRBs (Misra Committee, 1995)**

The working group has suggested for strengthening and to improve the viability of RRBs, a mechanism should be fallowed that the RRBs has to keep their surplus funds with NABARD or with some special agency which could deploy such fund on behalf RRBs in order to strengthen them.

**i) Committee on Revamping of Regional Rural Banks (Basu Committee, 1996)**

Committee suggested the introduction of prudential norms for Regional Rural Banks with suitable modifications and broad basing the selection of Chairman. Further the committee stated that some of RRBs are not be able to respond positively to the stand alone approach. So they have suggested for liquidation of such RRBs.

**j) Expert Group on RRBs (Thingalaya Committee, 1997)**

The committee has recommended that very weak RRBs to be viewed separately and possibility of their liquidation be recognized. They are advised to merge with neighboring RRBs, adequate autonomy to board of directors should be given in decision making of relating to business without refer to higher authorities. The committee has also recommended for professionalism of Directors and strengthening them internally. They have introduced various vigilance cells.

**k) Committee on Banking Sector Reforms (Narsimhan Committee, 1998)**

The committee recommended that all regulatory and supervisory functions over rural credit system should be brought under the control of Board of Financial Regulation and supervision. Positive steps may be taken to bring RRBs to right path of solvency, profitability and productivity as per the objectives of rural development.

l) **Committee on Manpower Norms in Regional Rural Banks (Agarwal Committee)**

The committee has suggested for many things relating to manpower issues. Major issues relating to deputation of employees from surplus RRBs to deficit RRBs, outsourcing and deployment of staff and management of manpower surplus or shortage in different regional rural banks in India.

m) **Expert Committee on Rural credit (Vyas Committee-I, 2001)**

The Committee has recommended for shares of defaulting state governments could be taken over by some other willing party at a determined prices. Willing party could be sponsor banks, NBFCs, RRBs employees. The sponsor bank should ensure necessary autonomy for RRBs in their credit system.

n) **Estimates committee,2000-01**

The committee has recommended for reduction of number of state nominees of RRBs should be reduced from two to one and number of directors of Sponsoring Banks has to be increased from two to three in order to strengthen the RRBs viability. The guidelines stipulating that Government deposits be made only in nationalized banks should be reviewed and modified accordingly in order to deposit the same in RRBs too. They are advised to take necessary steps in order to provide recapitalization to those who are loss making and making them financially viable.

o) **Advisory Committee on flow of credit to Agriculture and Related activities (Vyas Committee II, 2004)**

The Committee has recommended for the two different models – a zonal bank for RRBs in the North – East and Rural Banks at state level for rest of the country. As first state all RRBs of a sponsor bank in a state would be amalgamated into a single unit in that state. The second step as State consolidation and formation of state level rural banks. The restructured zonal or state level RRBs are given several exemptions and extended helping hand towards them.

p) **The task force on empowering the RRB boards for Operational Efficiency, 2006**

With a view to improving the performance of RRBs and giving more powers and flexibility to their boards in decision making the reserve bank has constituted the Task force on empowering the RRB boards for operational Efficiency in September 2006. It was constituted to deliberate and suggest areas where autonomy could be given to the boards, in special case of investments, business development and staffing which are in finding the strength of staff, fresh recruitment and promotions and others.

q) **Report on working group on Technology upgradation of RRBs**

A working group has been formed in the Chairmanship of Shri G. Padmanabhan. It was constituted to explore affordable ICT- based solutions suitable for RRBs and to identify the cost elements recommend the manner and criteria for funding such ICT solutions. The report has been submitted in April 2008 under the examination.

r) **Recapitalization of RRBs**

The government of India has formed a committee in September 2009 under chairmanship of Dr.K.C.Chakrabarty to study the current level of capital to Risk Weighted Assets Ratio(CRAR) of RRBs and to suggest a roadmap for achieving a CRAR of 9percent by March 2012. The committee has also suggested the Capital structure for RRBs given their business level so that their CRAR is sustainable and provides for future growth with regulatory requirements. The committee has submitted its report to government on April 30,2010.

### **Conclusion**

Since from the inception the Regional Rural Banks are contributing for the up lift of rural sector as well in regard the same has the banks need to encourage the agricultural sector by providing larger amount of term loans. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Where the financial crisis has during the year has brought down the financial performance of Regional Rural Banks under the loss so in order to make the picture of Rural Banks the Government of India has taken the step in consent with Reserve Bank of India and NABARD with the references of various committees recommendations the Government of India had laid down the red carpet for restructuring of Regional Rural Banks considering various factors. As per the recommendations A.V.Sardesai Committee in the first phase the RRBs sponsored by the same bank and working in the same state would be amalgamated. In the second phase RRBs sponsored

by the different sponsor banks working in the same sate would be amalgamated to form state level RRBs. This has brought down the RRBs from 196 to 133 in first phase of amalgamation. In certain way the amalgamation activity has strengthened the existence of RRBs and helped to take their existence with their object of establishment.

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