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Regional Rural Banks: An Overview

KEYWORDS

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INTRODUCTION

The economic development in India followed socialist-inspired policies for most of its independent history, including state-ownership of many sectors; India's per capita income increased at only around 1% annualized rate in the three decades after Independence. Since the mid-1980s, India has slowly opened up its markets through economic liberalization. After more fundamental reforms since 1991 and their renewal in the 2000s, India has progressed towards a free market economy.

India lives in its villages, and while the cities have grown immensely over the last 20 years, rural areas have not seen that kind of development. For India's economy to be strong, the rural economy needs to grow. Rural areas are still plagued by problems of malnourishment, illiteracy, unemployment and lack of basic infrastructure like schools, colleges, hospitals, sanitation, etc. Our villages need to grow in tandem with cities and standard of life has to improve there for inclusive growth to happen. If rural India is poor, India is poor.

Rural development is not merely development of rural areas but also the development of the rural people into self-reliant and self-sustaining modern little communities. Rural development in the country is designed to enhance the socio-economic living conditions for the people living in rural India while conserving their culture and rich tradition. The Government seeks to achieve higher targets related to rural production, employment and higher living standards which will pave the way for all round economic development of the country. This includes setting up basic infrastructure and facilities such as medical facilities, schools, and transport facilities, apart from scheme implementation related to improving rural employment, agricultural productivity and rural industrialization.

The rural population in India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit for other consumption needs like education, food, housing, household functions, etc. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money-lender and thereby help them avoid debt-traps that are common in rural India.

The Regional Rural Banks have been growing in importance since their inception in 1975 as special institutions playing a catalyst role in the development of rural areas. They have been playing a significant role in financing the weaker sections of the community in the rural areas and also in inculcating banking habit among rural masses. Regional Rural Banks were set up with a view to developing the rural economy by providing credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Being local level institutions, RRBs together with commercial and co-operative banks, were assigned a critical role to play in the delivery of agriculture and rural credit.

The RRBs' were established, "with a view to develop the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs and for matters connected therewith and incidental thereto." (The RRB Act, 1996)

It can be affirmed that the RRBs were established as a new set of State sponsored, rural-oriented, region-based, low cost banks, having the ethos of cooperatives and business acumen of commercial banks for providing credit in rural areas, particularly to the relevant weaker sections of the society. It would be fair to say that RRBs have succeeded in spreading the banking services to far flung rural areas, mobilizing rural savings, opening up new avenues for rural poor through institutional credit and generating employment opportunities. However, the mandate of financing only their target group borrowers, coupled with an administered interest rate structure, poor recovery performance, increasing establishment cost, and low level of operational efficiency have resulted in RRBs incurring losses and losing their financial viability from their inception.

INDIA LIVES IN VILLAGES

India rural Development Report highlights that the growth rate of rural per capita consumption rose exponentially in the last seven years. However according to the report, rural India still battles with poverty and lack of basic infrastructure.

1. 30% population of the country lives Below Poverty Line (BPL)
2. 80% of BPL population lives in rural areas
3. In 1993-94, nearly 50% of the rural poor lived in seven states – Jharkhand, Bihar, Assam, Odissa, Chattisgarh, MP and UP
4. This rose to 65% though states like Bihar, Chattisgarh and Uttar Pradesh have reduced poverty significantly
5. 44% of the rural poor in come under scheduled castes and scheduled tribes.
6. 18% of rural households have access to all three basic services – drinking water within premises, sanitation

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and electricity
7. 45% of rural households lack electricity connections
8. 70% of rural households lack sanitation facilities
9. 20% have none of the three basic services
10. 18% of rural families rely on non-farm employment as major source of their livelihood
11. Income from farm livelihood not sufficient for households
12. Encourage new crop models, revive traditional crops like millet
13. Various types of collective farming help small farmers overcome problems of scale, insecure land tenancy and poor access to credit, modern supply chains and storage

Regional Rural Banks (RRBs) were established in the year 1975 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 The global financial crisis and the current Euro zone crisis have affected the banks in the advanced economies; the spill over is reflecting on banks in emerging economies including India. Issues of financial stability, economic growth and managing inflation are the major challenges confronting regulators in advanced economies and are equally important for emerging economies like ours.

The biggest challenge for next decade or more to banks in the country is to capture the banking business of over 50% population of this country of over 120 billion people.

Some of the features of this type of banking are :-
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.

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The Operational Area of RRB
The area of operation of RRBs is limited to the area as notified by Government of India 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), Sponsor bank (35% share), and State Government (15% share). Thus, we can say RRBs are jointly owned by Government of India, Sponsor Bank and respective State Government.

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

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 amalgation has continued till June, 2014 and out of the originally 196 RRBs, now we have only 56 RRBs in July 2014.

ROLE OF RRB'S
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 development of the rural economy, the objectives of economic planning cannot be achieved. Reserve Bank of India in association with the other commercial banks has taken various initiatives to establish the equipped financial system in the rural India by offering various loans facilities for Crops (Short-term Loans) and Agriculture and Allied Activities (Term- Loans). In order to smoothen the system, RRB plays

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the key role by providing the following services:

Opening of no-frills accounts:
Basic banking no-frills account with nil or very low minimum balance & banking charges that make such accounts accessible to vast sections of the rural population. RRBs are providing small overdrafts in such accounts.

Relaxation on know-your-customer (KYC) norms: Since August 2005, KYC requirements for opening bank accounts were relaxed for small accounts. RRBs are now permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

General Credit Cards (GCCs): With a view to helping the poor and the disadvantaged rural people with access to easy credit, RRBs introduced general purpose credit card facility up to 15,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to the customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit.

Engaging business correspondents (BCs): In January 2006, RBI permitted scheduled commercial banks to engage business facilitators (BFs) and business correspondents (BCs) as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time.

The objectives of RRBs can be summarized as follows:
To provide cheap and liberal credit facilities to small and marginal farmers, agriculture

Laborers, artisans, small entrepreneurs and other weaker sections.

- To save the rural poor from the moneylenders. To act as a catalyst element and thereby accelerate the economic growth in the particular region.
- To cultivate the banking habits among the rural people and mobilize savings for the economic development of rural areas.
- To increase employment opportunities by encouraging trade and commerce in rural areas.
- To encourage entrepreneurship in rural areas.
- To cater to the needs of the backward areas which are not covered by the other efforts of the Government.
- To develop underdeveloped regions and thereby strive to remove economic disparity between regions.

CHALLENGES FOR THE RRB'S
Although RRBs had a rapid expansion of branch network and increase in volume of business, these institutions went through a very difficult evolutionary process due to the following problems:

Very limited area of operations
High risk due to exposure only to the target group
Public perception that RRBs are poor man's banks
Mounting losses due to non-viable level of operations in branches located at resource-poor areas.
Switch over to narrow investment banking as a turn-over strategy

Heavy reliance on sponsor banks for investment avenues with low returns barring exceptions, step-motherly treatment from sponsor banks.

7. Chairman of RRBs under the direction of Regional Managers appointed as Board of Directors by sponsor banks
8. Burden of government subsidy schemes and inadequate knowledge of customers leading to low quality assets
9. Unionized staff with low commitment to profit orientation and functional efficiency.
10. Inadequate skills in treasury management for profit orientation.
11. Inadequate exposure and skills to innovate products limiting the lending portfolios.

Inadequate effort to achieve desired levels of excellence in staff competence for managing the affairs and business as an independent entity.

Serious undermining of the Board by compulsions to look up to sponsor banks, GOI, NABARD and RBI for most decisions.

RRB hampered by an across the board ban on recruitment of staff.

SUGGESTIONS FOR IMROVEMENT OF RRBs
Government should encourage and support banks to take appropriate steps in rural development.

Efforts should be made to ensure that the non-interest cost of credit to small borrowers is kept as low as possible.

Policy should be made by government for opening more branches in weaker and remote areas of state.

Productivity can be improved by controlling the costs and increasing the income.

To participation cost, subsidy should be adjusted towards the end of the transaction for which loan assistance is sanctioned.

Government should take firm action against the defaulters and shouldn't make popular announcements like waiving of loans.

The RRBs have to make an important change in their decision making with regard to their investments

8. The RRBs have to be very careful and reduce the operating expenses, because it has been found from our study that these expenses have increased the total expenditure of the banks.
9. The RRBs have to give due preference to the micro-credit scheme and encourage in the formation of self help group.
10. Cooperative societies may be allowed to sponsor or co-sponsor with commercial banks in the establishment of the RRB.
11. A uniform pattern of interest rate structure should be devised for the rural financial agencies.
12. The RRB must strengthen effective credit administration by way of credit appraisal, monitoring the progress of loans and their efficient recovery.

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13. The credit policy of the RRB should be based on the group approach of financing rural activities.
14. The RRB may relax their procedure for lending and make them easier for village borrowers.

Present Status (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, 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.

CONCLUSION

Development of the rural economy is essential in order to ensure a balanced economic growth. The various problems faced by the rural sector such as: illiteracy, lack of access to basic services of electricity, sanitation, drinking water etc. can be overcome if adequate credit facilities are provided.

The initiative taken by the RBI to set-up the Regional Rural Banks and other such banks to promote banking in the rural India has come as a boom for these areas. The rural credit structure consists of priority sector and the non-priority sector. There has been tremendous achievement in disbursing loans to both the sectors.

Though the banks are not left untouched by the challenges, yet an ample amount of opportunity is waiting to be grasped by these banks.

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