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## Financial position and performance of RRBs in India

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### Abstract

RRBs were set up with the intention of taking banking services to the villages to cover such categories of rural masses, which hitherto were considered un-bankable by other RFBs specially the commercial banks. The Regional Rural Banks (RRBs), with focus on serving the rural areas, form an integral segment of the Indian banking system. Most of the branches of the RRBs, constituting more than one third of the total rural branches of all the scheduled commercial banks, operate in rural areas. This study is gathered from secondary sources that are from the published annual reports of RBI for the financial year ended 2005 to 2020. In this paper an attempt is made to analyze the financial performance of Regional Rural Banks in India. The study has been taken up for the period 2005 to 2020.

**Keywords:** demand, time, liabilities, deposits, assets

### Introduction

The creation of RRBs in India was first conceptualised by the Narsimham committee in 1975. The Government of India in the month of July 1975 formed a Working Group committee under the chairmanship of M. Narasimham in regard to examine in detail the need for setting up of new rural banks as subsidiaries of public sector banks for providing the credit requirements to the rural people. The Working Group Committee had recommended the setting up of state sponsored regionally based and rural oriented commercial banks in the country. Subsequently the recommendations were accepted by the Government of India to set up Regional Rural Banks (RRBs). The objectives for setting up of RRBs as provided by the RRB Act 1976 are “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 the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith and incidental thereto”.

The RRBs have a special place in the multi-agency approach adopted to provide agricultural and rural credit in India. These banks are state-sponsored, regionally based and rural-oriented. The RRBs were established in 1975 with the mandate to develop the rural economy by providing credit and other facilities for the development of agriculture, trade, commerce, industry and other productive activities in the rural areas, particularly to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. RRBs have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach, business volume as also contribution to development of the rural economy.

### Objectives of the Study

1. To analyze the financial position of RRBs in India.
2. To evaluate the asset position of the RRBs in India.

### Review of Literature

Bharat M. Kher (2013) <sup>[3]</sup> in his paper examined the rural credit structure of the India and Gujarat state in the role played by the RRBs. The study is confined only to the specific area like loan and advance made by the RRBs especially priority and non-priority sectors for the six years period starting for 2002-2003 to the year 2008-2009. In order to analyze the data and draw conclusion in this study Mathematical tools like percentage and growth rate. The study found that the disbursements of short-term loans for crops during the study period are encouraging and it constituted a higher rate than that of term-loans. Also the loans provide by

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the RRBs to various groups in the priority sector shows an increasing trend. The years 2007-08 and 2008-09 registered higher growth.

Sabitha Devi N. (2014) <sup>[8]</sup> analyse that as on 2012, there are 97,473 branches of scheduled commercial banks conducting banking transactions in the country, out of which 35,966 (36.9%) bank branches are in the rural areas, 25,566 (26.2%) branches in urban areas, 18,694 (19.17%) in semi-urban areas, constituting 63% of the total number of branches in rural and urban areas of the country. The author concludes that RRBs should not confine their operations only in agriculture sector but also provides benefits to small entrepreneurs, village and cottage industries and small farmers. And they should establish proper co-ordination with other institutional financing agencies, co-operative banks, commercial banks and local participants to enhance their capability and exploit untapped rural market.

Santhi N. and T.R.Ganesan (2015) <sup>[9]</sup> in their paper discussed the role of regional rural banks and their responsibilities towards rural development. The author opined that the multi-agency approach to rural credit was also to sub serve the needs of the input-intensive agricultural strategy (Green Revolution) which had initially focused on 'betting on the strong' but by the mid-seventies was ready to spread more widely through the Indian countryside. In addition, the potential and the need for diversification of economic activities in the rural areas had begun to be recognized, and this was a sector where the RRBs could play a meaningful role.

Dhanraj. N and R. Sai Kumar (2016) <sup>[4]</sup> in their study found that the performance of Telangana Gramenna Bank in Hyderabad branches has significantly improved over time, as steps for their improvement were initiated by the Government of India after the amalgamation process. The authors conclude that the rapid expansion of RRB has helped in reducing substantially the regional disparities in respect of banking facilities in India. The efforts made by RRB in its branch expansion, deposit mobilization, rural development and credit deployment to weaker section of rural areas are appreciable.

Satish Kumar *et al.* (2017) <sup>[10]</sup> in their study made an attempt has been made to study the financial performance of Regional Rural Bank (RRB), keeping in view the present trends of regional rural banks in the national perspective. The study is analytic and exploratory in nature, and makes

use of resultant data. The study found that the performance of Regional Rural Banks in India has drastically improved from the period of its establishment, as steps for their improvement were initiated by the Government of India after the amalgamation process.

Ramesh Pandi G. (2019) <sup>[6]</sup> conducted a study on the basis of secondary data collected from annual reports of NABARD. The study measures the growth pattern of RRBs, key performance indicators and financial performance of RRBs. This study used 10 year data from 2007-08 to 2016-17, and uses descriptive statistics and growth percentages to get reliable results. According to author the regional rural banks fulfils its goals like offering banking services to deprived segment, easy and cheaper credit to weaker sectors, and promote rural savings for productive purposes. It offers credit to the small and marginal agriculturists, artisans, socially and economically deprived weaker section of people involved in agriculture, trade and industry. It was concluded that the financial performance of regional rural banks has increased significantly.

Ratan Deb (2020) <sup>[7]</sup> in his paper made an attempt to highlight the performances of banks in Tripura and made a comparison between the performances of all PSBs and the RRB in promoting the rural development in that state. The study finds the positive performances of banking sector in respect of expansion of bank branches, CD ratio and credit plus investment ratio. The performance of RRB is found to be better in rural CD ratio and semi- rural CD ratio than the Public Sector Banks (PSBs). The recovery performances in priority sectors lending (includes Agri. & Allied activities, MSME, and Other Priority Sector) of RRB is far better than the PSBs. The performance of RRB in regard to coverage the beneficiaries of this scheme are found to be better than the PSBs since the implementation of Pradhan Mantri Mudra Yozana (PMMY) in this state. The author concluded that RRB has been performing their jobs for fulfilling the financial requirements of under privileged rural people.

### Deposits

In line with the objective of mobilising rural savings and channelizing it for productive purposes, there has been a substantial increase in the volume of business of RRBs – their deposits and credit have increased manifold. Table 1 gives the details of demand and time deposits of RRBs in India.

**Table 1:** Demand and Time Deposits of RRBs in India

S. No.	Year	Demand and time deposits from banks	Borrowing from banks	Other demand and time liabilities	Total Liabilities	Growth Rate in Total Liabilities
1	2005	82.59	198.03	82.87	363.49	-
2	2006	111.02	321.30	65.53	497.85	26.99
3	2007	101.15	186.98	122.18	410.31	-21.33
4	2008	172.99	312.51	91.76	577.27	28.92
5	2009	446.11	354.37	111.40	911.88	36.69
6	2010	1207.38	977.61	44.27	2229.26	59.09
7	2011	862.44	2006.67	18.21	2887.32	22.79
8	2012	751.00	2733.39	2.09	3486.48	17.19
9	2013	1685.17	2232.60	659.34	4577.11	23.83
10	2014	1723.60	4634.12	727.57	7085.29	35.40
11	2015	3807.39	4401.68	448.87	8657.94	18.16
12	2016	4481.94	4613.71	7.52	9103.17	4.89
13	2017	5290.78	4716.79	66.63	10074.20	9.64
14	2018	6731.37	5327.78	11.09	12070.24	16.54
15	2019	3484.22	4057.61	10.93	7552.75	-59.81
16	2020	9439.66	2315.62	197.70	11952.97	36.81

Source: RBI, Statistical Tables Relating to Banks in India-2020.

It is evident from table 1 that the lion share of liabilities of RRBS is the borrowings from banks during the first 12 years of study period. Then the liabilities of RRBs are mainly coming from the demand and time deposits except in 2019. The share of borrowings from banks is the highest (78.40 per cent) in 2012. The lowest share of borrowings from banks is lowest i.e. 19.37 per cent in 2020. The share of total liabilities of RRBs in 2005 is 22.72 per cent and it bulged to 78.97 per cent by 2020. The share of other demand and time liabilities in in total liabilities of RRBs is not evenly

distributed over the years. It varies between 0.06 per cent (2012) to 22.80 per cent (2005). The growth rate of total liabilities of RRBs is showing negative growth rate in 2006 and 2019. The highest growth rate of 59.09 per cent in total liabilities of RRBs is registered in 2010.

**Other demand and time liabilities Position of Regional Rural Banks in India**

Table 2 furnishes the particulars of other demand and time liabilities Position of Regional Rural Banks in India.

**Table 2:** Other demand and time liabilities Position of Regional Rural Banks in India

Year	Aggregate deposits	Demand deposits	Time Deposits	Borrowings (other than from RBI, NABARD, EXIM Bank)	Other demand and time liabilities	Liabilities to others in India	Growth Rate
2005	58285.78	12757.27	45528.52	2.56	1956.98	60245.33	-
2006	64195.16	17355.06	46840.10	6.01	1755.98	65957.14	8.66
2007	81620.03	20003.43	61616.60	10.18	2208.14	83838.35	21.33
2008	94411.86	21022.07	73389.79	1.84	2340.74	96754.44	13.35
2009	113828.15	24353.48	89474.67	21.92	2880.98	116731.06	17.11
2010	135814.20	28709.77	107104.43	196.13	3663.63	139673.97	16.43
2011	156701.93	33663.27	123038.66	7.79	4351.52	161061.24	13.28
2012	173392.77	34478.85	138913.93	160.36	5195.36	178748.49	9.90
2013	196422.29	37268.53	159153.76	6.35	5900.66	202329.29	11.65
2014	220623.80	39705.06	180918.74	2.91	6905.40	227532.11	11.08
2015	254226.29	47117.18	207109.12	15.37	7004.49	261246.16	12.91
2016	293754.38	50915.52	242838.86	18.84	7337.58	301110.80	13.24
2017	362771.47	66871.90	295899.57	203.00	7693.08	370667.56	18.77
2018	383818.24	65794.98	318023.25	659.47	7883.44	392361.15	5.53
2019	422157.20	69876.61	352280.59	487.69	10020.35	432665.24	9.32
2020	460554.43	77483.93	383070.50	1047.63	9527.96	471130.02	8.16

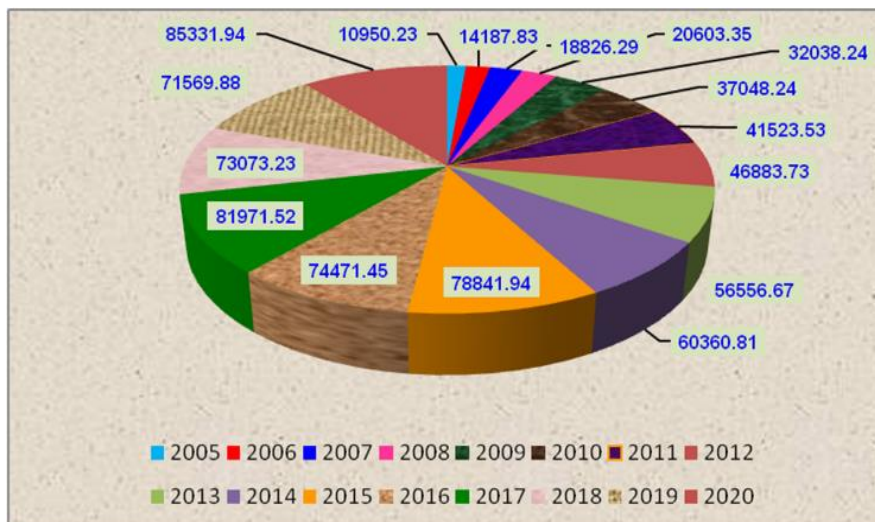
Source: RBI, Statistical Tables Relating to Banks in India-2020.

Table 2 shows that the share of time deposits of RRBs is high than the demand deposits. But the share of time deposits over the years is not evenly distributed. The highest and lowest share of time deposits of RRBs in India is registered in 2019 (83.45 per cent) and 2006 (72.97 per cent). With regard to demand deposits of RRBs highest and lowest share is registered in 2006 (27.03 per cent) and 2019 (16.55 per cent) respectively. The borrowings (other than from RBI, NABARD, EXIM Bank) showing sharp increase from 2017 onwards and reached the culmination of 1047.63 crores in 2020. Other demand and time liabilities share to total liabilities are unevenly distributed. The share of other

demand and time liabilities in total liabilities of RRBs varies between 2.01 per cent (2017) to 3.25 Per cent (2005). The growth rate in total liabilities ranges between 5.53 per cent to 21.33 per cent.

**Assets of RRBs**

The bank's assets include cash; investments or securities; loans and advances made to customers of all kinds, though primarily to corporations (including term loans and mortgages); and, finally, the bank's premises, furniture, and fittings. Figure b1 gives asset position of RRBs.



Source: RBI, Statistical Tables Relating to Banks in India-2020.

**Fig 1:** Assets of Regional Rural Banks in India

As per figure 1 the total asset value of RRBS in India is gradually showing upward trends except in 2016, 2018 and 2019. The asset value of RRBs in India in 2005 is Rs. 10950.23 crores in 2005 and it enhanced to Rs. 85331.94 crores by 2020. It means that the asset value of RRBs registered more than 7 fold increase in asset value during the 16 years of study period.

### Cash in Hand of Regional Rural Banks in India

Table 3 gives the year wise data on the cash in hand of Regional Rural Banks in India.

**Table 3:** Cash in Hand of Regional Rural Banks in India

S. No.	Year	Cash in Hand	Growth Rate
1	2005	597.89	
2	2006	1155.21	48.24
3	2007	1110.02	-4.07
4	2008	1103.93	-0.55
5	2009	1226.13	9.97
6	2010	1433.96	14.49
7	2011	1670.67	14.17
8	2012	1820.20	8.21
9	2013	1809.85	-0.57
10	2014	2036.14	11.11
11	2015	2045.34	0.45
12	2016	2285.15	10.49
13	2017	2762.00	17.26
14	2018	2786.17	0.87
15	2019	3050.65	8.67
16	2020	2870.51	-6.28

**Source:** RBI, Statistical tables Relating to Banks in India-2020.

It can be inferred from table 3 that the cash in hand of RRBs in 2005 is Rs. 597.89 crores in 2005 and it reached the highest culmination of Rs. 3050.66 crores by 2019. The cash in hand of RRBS during the study period increased 5 times (2019). With regard to cash in hand, 4 (2007, 2008, 2013 and 2020) out of 16 years of study registered negative growth rate. The highest growth rate of 17.26 per cent in cash in hand registered in 2017.

### Conclusion

RRBs should diversity their operations and undertake more non-fund based activities such as issuance of guarantee, demand drafts, traveller's cheques, providing locker facilities etc. They can also work as agents by marketing the various low premium schemes of private as well as public sector insurance agencies which cover the rural people against various mis-happenings in their lives. They can also market the products of other financial institutions such as shares, bonds, mutual funds to earn commission based income. RRBs should be allowed to undertake non trade related currency account transactions also. All these efforts will help RRBs in augmenting their other income. Moreover, this will attract more potential customers and help in increasing the overall business of these banks.

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