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Key performance indicators of RRB's in India

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Abstract

The study was undertaken to analyse the key performance indicators of RRB's in India, results revealed that applied model was good fitted and having 92% R2 so said model was used to identify the key indicators responsible for performance for RRB's. No. of branches and districts were found negatively significant at 5% whereas borrowed funds and Total funds were positively significant indicators for Net profit of RRB's at 1 percent level of significance respectively.

It was also observed that as number of branches and districts were increased, Net profit of RRB's decreased. Net profits and recovery of 0.473 found to be statistically significant at 1% level of significance in selected variables.

Keywords: Performance, indicator, significant, burrowed fund, districts, branches

Introduction

RRB's (Regional Rural Banks) are Indian government-owned scheduled commercial banks that operate at a regional level in several states. These banks are owned by government of India under ministry of finance. They were established to provide basic banking and financial services to rural communities. However, RRB's have urban branches. The operation's territory is limited to the area notified by the Indian government, which includes one or more districts of the state. RRB's perform a variety of tasks, including providing banking services to rural and semi-urban areas, carrying out government operations such as the disbursement of MGNREGA workers' wages and the distribution of pensions, and providing Para-banking services such as lockers, debit and credit cards, mobile banking, internet banking, and UPI.

The Regional Rural Banks have become an important part of the rural credit delivery system, and they are taking significant steps toward obtaining banking services and mobilizing the rural savings of the poorer sections of the villages, even in small amounts, in order to refinance them and use them to support production activities. In this way, the study attempts to assess the performance of Regional Rural Banks in India and propose recommendations for improving their performance.

The current study is based on secondary data from the National Bank for Agriculture and Rural Development (NABARD) and the Reserve Bank of India's annual reports (RBI). The analysis is entirely based on financial data gathered from publicly available bank financial statements (NABARD). This research takes into account all of the financial statements' limitations. In India, there is a substantial variation in RRB performance between the pre-decade and post-decade periods. The purpose of this research was to look into the progress and performance of RRB's in various Indian states, having the following specific goals in mind.

Methodology

The study was based on secondary data collected for 20 years from 2001-02 to 2020- 21, various sources using appropriate analytical techniques to satisfy the objective.

Multiple regression

It is the type of linear regression. Multiple regression explains the relationship between dependent and multiple independent variables. The multiple linear regression analysis is used to identify the influencing independent variables on dependent variables. It is used to analyse the key performance indicators of RRB's in India.

Formula of multiple regression

Y= a+b1x b2x2 + b3x3… + bnxn + E

Where
Y - Dependent variable of the regression.
x, x, x, ……… x - Independent variables.
b, b, b ………b - coefficient of regressions or slope, E - Error terms in regression.
Simple or Pearson's correlation

The Pearson coefficient is a type of correlation coefficient that represents the relationship between two variables that are measured on the same interval or ratio scale. The Pearson coefficient is a measure of the strength of the association between two continuous variables. It is used to analyses the key performance indicators of RRB's in India.

Formula of Pearson's correlation coefficient

$$\frac{\sum \qquad \sum \quad \sum}{[\ \sum \qquad \sum\ ][\ \sum \qquad \sum\ ]}$$

Where,
r – Pearson coefficient,
n – number of observations in given sample,
∑xy - sum of products of observations present in x and y variables,
∑x - Sum of the x scores,
∑y - Sum of the y scores,
∑�2 - Sum of the squared x scores and
∑�2 - Sum of the squared y scores.

Results and Discussion

The key performance indicators of RRB's presented in Table 1. It is observed that, applied model was good fitted and having 92% R2 so said model was used to identify the key indicators responsible for performance for RRB's. The key indicators number of branches, Deposits, Loans/Advances, Staff, borrowed funds, Recovery, number of districts, CD ratio and Total funds were studied under the fitted model however number of branches and number of districts were found negatively significant at 5% whereas Borrowed funds and Total funds were positively significant indicators for Net profit of RRB's at 1% level of significance respectively which was shown in below Table 1. Results implied that borrowed funds and Total fund played an important role for positive growth of Net profit. It was also observed that as number of branches and districts increased, Net profit of RRB's decreased. The similar results were discussed by Soni and Kapre (2012), Das (2014) [4], Deep Gagan (2015) [5] and Agarwal and Reddy (2019) [1].

Table 1: Indicators for performance of RRB's in India

	Coefficients	Standard Error
Intercept	28856.99305	5632.940902
Number of branches	-1.551957128	0.387803531
Deposits	0.00041446	0.017848343
Loans / advances	-0.038780819	0.037599199
Staff	-0.059404163	0.034068362
Borrowed funds	-0.831448706**	0.127944655
Recovery	40.23774295	55.01932185
Number of districts	-8.61659238*	2.739803685
CD ratio	-91.09135754	52.5306707
Total funds	0.885658555**	0.116736182

(* and ** denotes significance at 5% and 1% level, respectively).

Pearson's Correlation matrix

Pearson's Correlation matrix was observed in Table 2. The Table revealed that the Correlation matrix between among the different variables like Net profits, Number of Branches, loans/Advances, Deposits, Recovery, Staff, No. of districts, CD Ratio and Total funds which were included for study

Table 2: Pearson's Correlation matrix

	Net profits	Number of Branches	Loans / Advances	Deposits	Recovery	Staff	No. of districts	CD Ratio	Total funds
Net Profits	1	-0.028	-0.074	-0.120	0.473*	-0.131	0.065	0.298	0.120
Number of Branches		1	0.980	0.969**	0.054	0.961**	0.693**	0.725**	0.978**
Loans/Advances			1	0.997**	0.019	0.951**	0.654**	0.733**	0.969**
Deposits				1	-0.026	0.943**	0.629**	0.695**	0.950**
Recovery					1	0.017	0.383	0.581**	0.127
Staff						1	0.570**	0.581**	0.932**
No. of Districts							1	0.745**	0.697**
CD Ratio								1	0.805**
Total Funds									1

(* and ** denotes significance at 5% and 1% level, respectively).

The result revealed that, there was high degree of association between selected variables i.e., net profit, number of branches, loans/Advances, deposits, recovery, staff, number of districts, CD ratio and total funds. Net profit and recovery (0.473) found to be statistically significant at 1% level of significance. That means if recovery is increased by 1 unit then it will responsible in increment of net profits by 0.473 units. This is because usually banks make money by providing and earning interest from loans. Customer deposits provide banks with the capital to make these loans. Traditionally, money earned in the form of interest from loans often accounts for up to 65% of a banks' revenue model. So, banks have to earn sufficient profits in time for the greater operating efficiency of it.

Number of branches and loans/advances, deposits, staff, number of districts, CD ratio and total funds found to be positively significant at 1% level of significance with the value 0.969, 0.961, 0.693, 0.725 and 0.978 respectively. Loans /advances and deposits, staff, number of districts, CD ratio and total funds found to be statistically significant at 1% level of significance with the value 0.997, 0.951, 0.654, 0.733 and 0.969 respectively. Deposits and staff, number of districts, CD ratio and total funds found to be positively significant at 1% level of significance with the value 0.943, 0.629, 0.695 and 0.950 respectively. This is because of number of RRB's in India has decrease due to amalgamation process and number of districts covered by RRB's increase year by year. So, the performance was positive with increase in loans, deposits and CD ratio. RRB's successfully achieve its objectives like to take banking to door steps of rural households particularly in banking deprived rural area, to avail easy and cheaper credit to weaker rural section who are dependent on private lenders, to encourage rural savings for productive activities, to generate employment in rural areas and to bring down the cost of purveying credit in rural areas. Thus, RRB's is providing the strongest banking network.

Recovery and CD ratio with value 0.581 found to be significant at 1% level of significance in selected variable. That means if CD ratio is increased by 1 unit, then it will be responsible for increment of recovery by 0.581. Staff and number of districts, CD ratio and total funds are found to be significant at 1% level of significance with the value 0.570, 0.686 and 0.932 respectively. Number of districts and CD ratio and total funds are found to be significant at 1% level of significance with the value 0.745, 0.697 respectively. CD ratio and total funds 0.805 found to be positively significant at 1% level of significance in selected variables. The similar results were discussed by Agarwal and Reddy (2019) [1].

Conclusion

1. It was observed that, No. of branches and no. of districts were found negatively significant at 5% whereas Borrowed funds and Total funds were positively significant indicators for Net profit of RRB's at 1 percent level of significance respectively.
2. It was also observed that as number of branches and districts increased then Net profit of RRB's decreased.
3. Net profits and recovery of 0.473 found to be statistically significant at 1% level of significance in selected variables.

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