

## A STUDY ON FINANCIAL PERFORMANCE OF REGIONAL RURAL BANKS (RRBS) OF INDIA

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### ABSTRACT

This research paper worked on measuring Financial Performance of Regional Rural Banks of India. Regional Rural Banks are the banking organizations being operated in different states of India. They have been created to serve the rural areas with banking and financial services. Rural banking institutions are playing a extremely imperative part for adaptable expansion of rural areas of the nation. In order to support the rural banking sector in recent years, Regional Rural Banks have been set up all over the country with the objective of meeting the credit needs of the most under privileged sections of the society. This research aim is that to analyze the financial performance of RRBs based on the Deposit ,Credits and Credit- Deposit Ratio. The study is based on secondary data collected from RRBs websites, reports of the bank, magazines, journals, documents & other published information. The study covers the period of six years i.e. 2016-2022.The Statistical Tools like Mean and Standard Deviations is used to analyse the data and Minimum and Maximum have also been deployed to analyse the data.

**Keywords:** *Banking, Rural Banking, Financial Performance, Indian Banking, Bank Performance*

### I. INTRODUCTION

Regional Rural Banks (RRBs) are Indian Scheduled Commercial Banks (Government Banks) operating at regional level in different States of India. 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. RRBs also perform a variety of different functions. Regional Rural Banks were established under the provisions of an Ordinance passed on 26 September 1975 and the RRB Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors.As a result Five Regional Rural Banks were set up on 2 October 1975,Gandhi Jayanti. These were set up on the recommendations of The narshimham committee Working Group during the tenure of Indira

Gandhi's Government with a view to include rural areas into economic mainstream since that time about 70% of the Indian Population was of Rural Orientation.

The development process of RRBs started on 2 October 1975, Gandhi Jayanti with the forming of the first RRB, the Prathama Bank, Head Office at Moradabad (U.P.) with authorised capital of Rs 5 crore at its starting. prathama bank was sponsored by syndicate bank. As on 2 October, 1975 Out of the remaining four RRBs in the country one was Set up at Malda in West Bengal under the name of Gour Gramin Bank, which was the first RRB in the Eastern Region of India. These Regional Rural Banks (RRBs) have been receiving a high degree of importance and attention in the rural credit system. Considering the gross absence of banking facilities in the rural areas of the country, the Reserve Bank of India in consultation with the Central Government, State Governments and some major nationalized sponsored banks had set up some Regional Rural Banks in the late 1970s with a view to elevate the economic status of the rural poor as well as to inculcate a habit of saving among the rural masses.

As per the recommendations of the Working Group on Rural Banks, the regional rural banks were established in 1975 for supplementing the commercial banks and co-operatives in supplying rural credit. The main objective of regional rural banks in India is to advance credit and other facilities, especially to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs in order to develop agriculture, trade, commerce, industry and other usual productive activities in different rural areas of the country. The regional rural banks are maintaining its special charter if their of operation is very much limited to a definite region, grant direct loan to rural people at concessional rates and receive subsidies and concessions from the Reserve Bank and the sponsoring bank. Functional Superiority of Regional Rural Banks: Regional Rural Banks have also established functional superiority over other commercial banks of the country. This superiority of RRBs has been brought out by the share of deposits contributed by these branch offices of RRBs in different states. The share of deposits of these branches of RRBs in December, 1991 in a state like Uttar Pradesh was 25.7 per cent in comparison to that of only 12.4 per cent for other Scheduled Commercial Banks. This achievement is noteworthy if we consider that the number of branches of RRBs (1,193) was even lower than that of other scheduled commercial banks (1,361). Moreover, the share of deposits of RRBs in Haryana was also higher than other scheduled commercial banks which had comparatively double the number of branches.

Another important matter that has also been noticed is that most of the branches of RRBs are opened in unbanked centres and thus the deposits mobilised by them are fresh deposits and are not diverted from the deposits per branch of RRBs established before 1980 is uniformly higher in almost all the states of the country. In respect of credit operations, RRBs were successful in identifying the target groups and also in meeting their credit requirements.

## 2. Role of Regional Rural Banking for Rural Development:

Regional Rural Banks were established with the following responsibilities in mind: 1) Taking the banking services to the doorstep of rural masses, particularly in hitherto unbanked rural areas. 2) Identify the financial need especially in rural areas. 3) Making available institutional credit to the weaker section of the society who had by far little or no access to cheaper loans and had perforce been depending on the private money lenders. 4) To enhance banking & financing facilities in backward or unbanked areas. 5) Mobilize rural savings and channelize them for supporting productive activities in rural areas. 6) To provide finance to the weaker sections of society like small farmers, rural artisans, small producer, rural labourers' etc. 7) To create a supplementary channel for the flow the central money market to the rural areas through refinances. 8) To provide finance to co-operative societies, Primary Credit societies, Agricultural marketing societies. 9) Generating employment opportunities in rural areas and bringing down the cost of providing credit to rural areas. 10) Enhance & improve banking facilities to semi urban, rural & other untapped market. With these objectives in mind, knowledge of the local language by the staff is an important qualification

## 3. Objective of the study

- To evaluate the Financial Performance of Regional Rural Banks with reference to State-Wise Credit , Deposits and Credit-Deposit Ratio of Regional Rural Banks

## 4. Research Methodology

Research Design and Data Collection Method: These research study used descriptive researches design. In reserch paper is an effort is made to assess and evaluate the financial performance of banks in various regions. The study is based on secondary data collected from RRBs websites, reports of the bank, magazines, journals, documents & other published information. The study covers the period of Six years i.e. 2016-2017 to 2021-2022. The Statistical Tools like Mean and Standard Deviations is used to analyse the data and Minimum and Maximum have also been deployed to analyse the data.

## 5. Literature Review:

NABARD (1986) published a study on RRBs viability which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that RRBs incurred losses due to defects in their systems as such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in the infrastructure

facilities and opening of branches by commercial banks in such areas where RRBs were already in function.

Jasvir S. Sura (2008) the study shows that the overall position of RRBs in India is not quite encouraging. The poor credit-deposit ratio is still making dent on the improvable functioning of RRBs. Since the RRB is supposed to be a bank for poor people, its presence in all the states of country especially in underdeveloped States can make things better. The government should spread the branches of RRBs at grass root level to provide such banking service to the needy rural people. Moreover, it is the responsibility of the bank management and the sponsored bank to take corrective measures to raise the credit-deposit ratio of the bank that would make RRBs relevant in the rural India.

Chauhan (1991) studied the availability and adequacy of credit, its use by borrowers and impact on rural income and savings with specific reference to the operations of RRBs. Data were collected from four RRB branches randomly selected in the Etawah district of Uttar Pradesh. Borrowers were divided into four categories small and marginal farmers, landless labours and rural artisan and small traders. Results for the year 1984/85 showed that the availability of credit per borrower was the highest for landless labour, however, it was found that the demand for loans exceeded the supply by about eight per cent for the other three categories of borrowers. Further, it was found that 35 per cent of total loan were put to unproductive use to the urgent consumption needs particularly in landless labour and a very little surplus income existed within the sample ranging from 7 to 16 per cent for the average household. It was credit activities and schemes to encourage the mobilization of saving among the rural poor.

The Committee on Financial Systems, (1991) (Narasimham Committee) The study has shown stress on the poor financial health of the RRBs to the exclusion of every other performance indicator. 172 of the 196 RRBs were recorded unprofitable with an aggregate loan recovery performance of 40.8 percent. (June 1993). The low equity base of these banks (paid up capital of Rs.25 lakhs) did not cover for the loan losses of most RRBs. In the case of a few RRBs, there had also been an erosion of public deposits, besides capital. In order to impart viability to the operations of RRBs, the Narasimham Committee suggested that the RRBs should be permitted to engage in all types of banking business and should not be forced to restrict their operations to the target groups, a proposal which was readily accepted. This recommendation marked a major turning point in the functioning of RRBs.

Jai Prakash A. K. (1996) conducted a study with the objective of analyzing the role of RRBs in Economic Development and revealed that RRBs have been playing a vital role in the field of rural development. Moreover, RRBs were more efficient in disbursal of loans to the rural borrowers as compared to the commercial banks. Support from the state Governments, local

participation, and proper supervision of loans and opening urban branches were some steps recommended to make RRBs further efficient.

## 6. Data Analysis

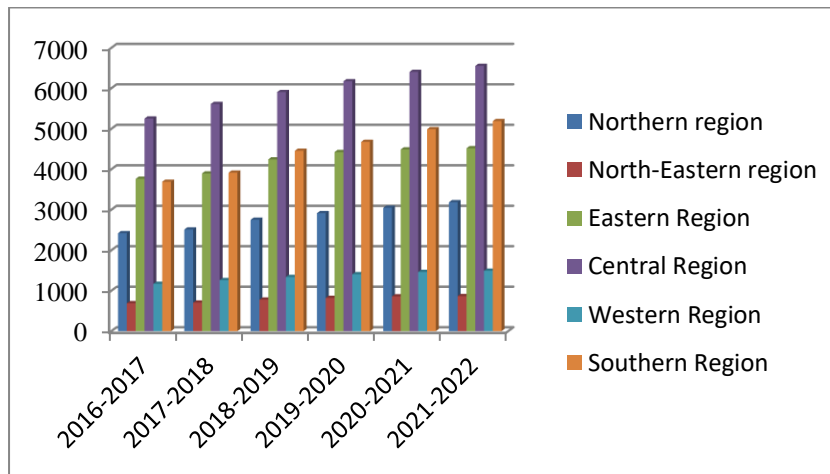
Financial performance analysis is the mostly made to evaluate the growth, profitability and financial soundness of the bank by identifying the information limited to the financial records. Available. for this reason the subsequent factors have been considered:

- State- Wise Deposits Of Regional Rural Banks
- State - Wise Credits Of Regional Rural Banks
- State Wise Credit- Deposit Ratio of Regional Rural Banks

**Table 1: Number of Branches of Regional Rural Banks (as at end- March)  
(Rs. In Billion)**

Regions/ States/ Unions Territories	Northern Region	North- Eastern Region	Eastern Region	Central Region	Western Region	Southern Region
2016-2017	2420	690	3763	5253	1169	3690
2017-2018	2512	704	3896	5613	1261	3915
2018-2019	2751	778	4242	5907	1339	4455
2019-2020	2914	821	4425	6173	1406	4677
2020-2021	3048	859	4489	6404	1463	4988
2021-2022	3184	867	4519	6553	1493	5189
Mean	2804.83	786.5	4222.34	5983.84	1355.17	4485.67
Standard Deviation	274.33	69.67	293.85	449.79	113.29	539.09

Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, RBI, various issues.



Graph :1

**Interpretation:**

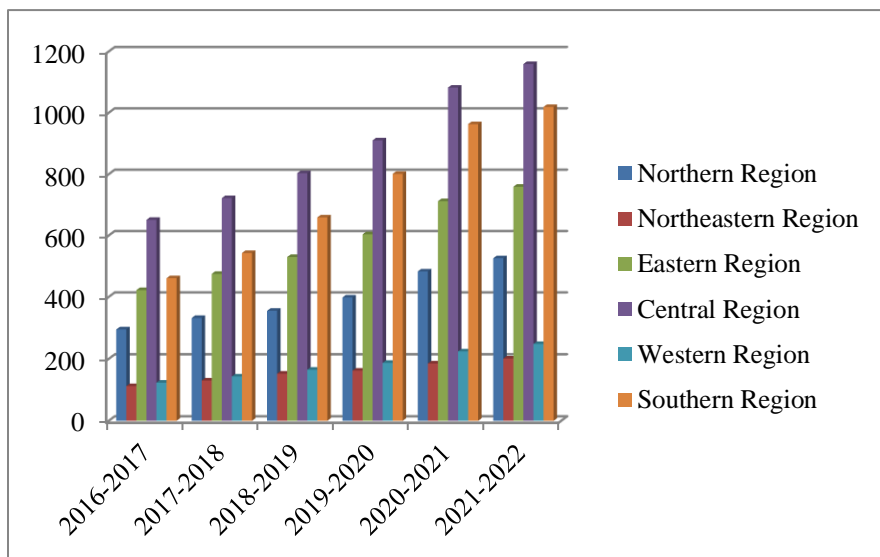
From the above table it is clear that Regional Rural Banks In Central Region has the highest mean as compared to other regions (5983.84) and the Southern Region has the highest as the Standard deviation is high in this region(539.09).

**Table 2: State Wise Deposits Of Regional Rural Banks (as at end- March)**

(Rs.Billion )

Regions/ States/ Unions Territories	Northern Region	North- Eastern Region	Eastern Region	Central Region	Western Region	Southern Region
2016-2017	295	112	422	651	123	461
2017-2018	332	130	475	722	143	543
2018-2019	355	152	530	803	165	659
2019-2020	398	162	604	910	187	801
2020-2021	483	185	712	1082	224	963
2021-2022	526	201	759	1159	248	1019
<b>Mean</b>	<b>398.17</b>	<b>157</b>	<b>583.67</b>	<b>887.83</b>	<b>181.67</b>	<b>741</b>
<b>Standard Deviation</b>	<b>82.08</b>	<b>30.342</b>	<b>121.41</b>	<b>183.71</b>	<b>43.65</b>	<b>205.95</b>

Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, RBI, various issues.



Graph:2

**Interpretation:**

From the above table it is clear that Regional Rural Banks In Central Region has the highest mean as compared to other regions (887.83) and the Southern Region has the highest deposits as the Standard deviation is high in this region(205.95).

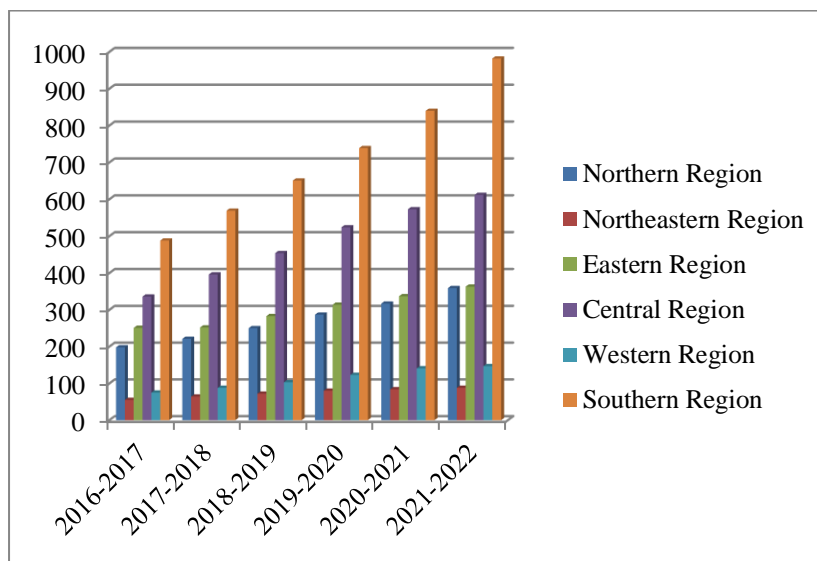
**Table 3: State Wise Credit of Regional Rural Banks (as at end- March) (Conclude.)**

(Rs. Billion)

Regions/ States/ Unions Territories	Northern Region	North- Eastern Region	Eastern Region	Central Region	Western Region	Southern Region
2016-2017	198	55	251	336	75	488
2017-2018	221	64	252	396	88	569
2018-2019	250	72	283	454	103	651
2019-2020	287	80	314	524	123	739
2020-2021	317	84	337	573	141	840
2021-2022	359	88	363	612	147	982
<b>Mean</b>	<b>272</b>	<b>73.84</b>	<b>300</b>	<b>482.5</b>	<b>112.84</b>	<b>711.5</b>

<b>Standard Deviation</b>	<b>55.34</b>	<b>11.52</b>	<b>41.89</b>	<b>96.99</b>	<b>26.49</b>	<b>165.5</b>
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Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, RBI, various issues.



Graph:3

**Interpretation:**

From the above table it is clear that the mean and Standard deviation of Credit by Regional Rural Banks in Southern Region is highest in comparison to other regions, this be similar to elevated credit by RRB’s in Southern Region.

**Table 4: State Wise Credit-Deposit Ratio Of Regional Rural Banks(as at end- March) (Conclude)**

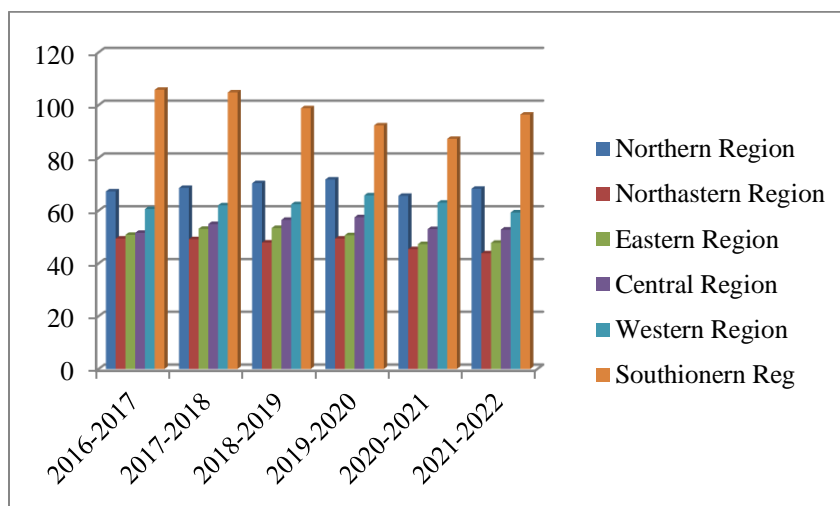
(Rs.Billion )

Regions/ States/ Unions Territories	Northern Region	North- Eastern Region	Eastern Region	Central Region	Western Region	Southern Region
2016-2017	67.3	49.4	50.8	51.6	60.6	105.8
2017-2018	68.6	49.2	53.1	54.9	62	104.8
2018-2019	70.4	47.4	53.4	56.5	62.4	98.8
2019-2020	71.8	49.4	50.7	57.5	65.8	92.3



2020-2021	65.6	45.4	47.3	53	63	87.2
2021-2022	68.3	43.8	47.8	52.8	59.3	96.4
<b>Mean</b>	<b>68.67</b>	<b>47.44</b>	<b>50.52</b>	<b>54.39</b>	<b>62.19</b>	<b>97.55</b>
<b>Standard Deviation</b>	<b>2</b>	<b>2.17</b>	<b>2.33</b>	<b>2.1</b>	<b>2.02</b>	<b>6.56</b>

Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, RBI, various issues.



Graph:4

**Interpretation:**

The above table demonstrates that the mean of Credit Deposit Ratio in Southern Region is more than 70% and also the Standard Deviation is highest. Which resembles that the banks in Southern Region have more dependence on deposits for lending, because as per RBI guidelines generally CD ratio should be less than 70% as a higher ratio indicates more dependence on deposits for lending and vice-versa. Whereas in other regions it is less than 70% which indicates proper use of deposits in these regions.

**7. Findings of Study**

- There is clear that Regional Rural Banks In Central Region has the highest mean as compared to other regions (5983.84) and the Southern Region has the highest as the Standard deviation is high in this region(539.09).
- There is clear that Regional Rural Banks In Central Region has the highest mean as compared to other regions (887.83) and the Southern Region has the highest deposits as the Standard deviation is high in this region (205.95).

- There is clear that the mean and Standard deviation of Credit by Regional Rural Banks in Southern Region is highest in comparison to other regions, this be similar to elevated credit by RRB's in Southern Region.
- There is demonstrates that the mean of Credit Deposit Ratio in Southern Region is more than 70% and the Standard Deviation is highest. Which resembles that the banks in Southern Region have more dependence on deposits for lending, because as per RBI guidelines generally CD ratio should be less than 70% as a higher ratio indicates more dependence on deposits for lending and vice-versa. Whereas in other regions it is less than 70% which indicates proper use of deposits in these regions.

### 8. Suggestion:

1. As observe red from the study that the number of branches in North-Eastern Region is very low as compared to other regions and hence for development of rural area in this region more branches should be opened.
2. The RRBs in North-Eastern Region have failed to mobilise accounts within themselves as deposits here are very low, therefore an effective link should be maintained between the RRBs and PACS and the farmers' service societies also proper co-ordination between officials of the district credit planning committees and the RRBs is essential.

### 9. CONCLUSION:

The present study attempts to the financial performance of regional rural banks (RRBs) of india” the financial performance of Regional Rural Banks in various region of India. The study comprises 6 regions from India and the financial performances of these banks are analysed using the financial data from RRBs using Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks, RBI, various issues. The study found that southern region banks is performing relatively better and they are financially sound than comparing to banks in other regions. However, other regions show leaps and bounds throughout the study period. With respect to Credit, Deposits and Credit-Deposit Ratio.

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