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POST AMALGAMATION ROLE OF REGIONAL RURAL BANKS IN ECONOMIC DEVELOPMENT

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Abstract

Now days, with the suggestion of experts, and economists, bankers and several committees, RRBs were amalgamated in two phases-within the sponsor Banks in 2005 and inter-sponsor Bank amalgamation in 2013. The review suggests that in the last twenty years what was the role played by RRBs in economic development of the people of India and whether the original objective of serving the rural poor for which the bank was formed is fulfilled even after amalgamation. The purpose of this research is to find the opinion of consumers and employees towards the role of RRBs in the mobilisation of deposit and credit in rural population and to find the impact of RRBs on Indian economy. It is found that, RRBs are taking vital efforts in improving the economic condition of villages and for this purpose they are launching many schemes that helps to improve the financial condition of the rural population.

Keywords: Regional Rural Banks, amalgamation, deposits mobilisation, credit management, etc.

1.1 Introduction:

Regional Rural Bank Act 1976 is an act to provide for the incorporation, regulation and winding up of regional rural banks with a view to developing 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 laborers, artisans and small entrepreneurs for matters connected and incidental thereto. The primary objective of Regional Rural Bank was to be familiar with local need and serve as an alternative channel which is professionally managed for credit dispensation to small and marginal farmers, socio economically weaker sections of population, agricultural laborers, for development of agriculture, trade, commerce, industry and other productive activities.

1.2 Reform and Amalgamation process:

Regional Rural Banks played a very important role in rural financing since its inception in 1976. But the financial viability of RRBs emerged as an important question by the end of 1990s. It became the most crucial factor in deciding the role it can play after the introduction of financial reforms in the country in 1991-92. The size of its loan was small and was exposed to risk prone advances. It had restrictive interest rate policy with limited business flexibility and limited scope of diversification or expansion. The RRBs were incurring losses and NPAs were mounting.

The Government of India and the Reserve Bank of India took many initiatives to strengthen RRBs and improve their performance. In 1994-95 recapitalization of RRBs was initiated as part of the restructuring programme. 187 RRBs were covered under this program till 1999-2000 with aggregate financial support of Rs. 2188.44 cr from the shareholders, viz. Government of India, state governments and sponsor banks in the ratio 50:15:35 respectively.

The branch licensing policy was liberalised. The RRB's applications to open new branches were sanctioned by the empowered committees at the regional offices of RBI. The RRBs were given relaxation in branch expansion even beyond their designated districts. The branches of RRBs, with the prior approval of RBI and the concerned government authority, were allowed to undertake government business including the foreign exchange business. 40 RRBs were taken up for recapitalisation to enable them to achieve and sustain a CRAR of 9% in 2010. The license to open extension counters at the premises of the institutions of which they were principal bankers could be obtained from RBI’ s concerned regional office.

If the RRBs had licenses issued by the RBI, of branches and extension counters, the permission for the installation of ATMs at such branches or institutions was not required. After assessing, the cost and benefit of installation, RRBs were permitted to open off site ATMs as well. RRBs were permitted to relocate, merge or close down the loss making, unviable branches and relocations could be made from far flung rural areas to vibrant urban areas. The important policy decisions taken during this period included, quality classification and provisioning norms for RRBs (1995-96), rationalisation of remuneration structure for RRB staff (that were brought at par with other commercial Bank officers), guidelines on staffing (as part of the efficiency norms for RRBs) and relaxation on limits set for lending to the priority sector. RRBs then gave advances carefully and made efforts for repayment. RRBs now compete with commercial banks in providing credit in the rural market. But despite all efforts to improve RRBs one important point to be considered is that, the very objective of credit to the rural poor by RRBs should not be diluted by the reform process which is again a necessity."

Another aspect of the reformation of RRBs was the amalgamation of RRBs. A number of committees had come up with different suggestions to mention the financial non-viability of RRBs. The Kelkar committee suggested in 1984 that small and uneconomic RRBs should be merged. The agriculture review committee (Khusro Committee), in 1989 was of the opinion that the RRBs should be merged with the sponsor Banks as the weaknesses of RRBs were endemic to the system and thus builds nonviability into it. A self-sustaining credit institution can only serve the weaker sections effectively. The Bhandari Committee which was the committee on restructuring of RRBs, in 1994 identified 49 RRBs for comprehensive restructuring.

It also recommended that in the matters of business development and staff, greater devolution of decision making powers should be given to the boards of RRBs. The Vyas Committee suggested autonomy for the RRBs by the Sponsor Bank in their credit and other portfolio management system. The Internal working group of the Reserve Bank of India (RBI) was of the view that merger and amalgamation of RRBs may help in improving their viability and even suggested bringing of new banks both public and private as Sponsor Banks of the merged RRBs.

In order to improve the profitability of these Banks and strengthening them further, a need to amalgamate more than one RRBs of the same Sponsor Banks operating in the same state was felt. The group even noted that the RRB Act 1976 did not provide for mergers of RRBs into the sponsor Banks and would also go against the spirit of setting up of RRBs as local entities and serving the weaker sections by providing credit primarily to them. On 31st March 2004, 33 RRBs were having operational losses and to overcome these problems, reducing expenditure and enhancing efficiency, in August 2004 Reserve Bank of India decided to amalgamate all the RRBs sponsored by one bank and operating in a state into one single entity.

This decision was even more important and relevant in the fast changing economic environment and introduction of better financial products in the market, necessitating RRBs to grow bigger. Moreover computerization was the necessity of the day and key to success of such entities, which could be possible and feasible only when RRBs are big in size. The process of amalgamation started in early 2005. 145 RRBs were amalgamated on 31st march 2007, reducing the total number of RRBs to 96 from 196 and to 88 at the end of June 2008. This consisted of 45 amalgamated banks, 42 stand alone banks and one new bank called the Puduvai Bharathiar.

Gramin Bank in the Union Territory of Puducherry. As on Jan 1 2012, 82 RRBs existed in India. Again a second phase of amalgamation was conducted from 2013, the strategy of which was to amalgamate RRBs functioning in contiguous geographies even if different public sector banks sponsored them. A major Bank operating in the region then sponsored the newly amalgamated RRB. In a medium or small sized state, geographically extensive RRBs under different sponsor Banks, within a state amalgamated to form just one RRB.15 In a large state, the RRBs were amalgamated to form two or three RRBs. This amalgamation finally led to the reduction of number of RRBs to 56 by 2016. The finance Ministry had put on hold further amalgamation of RRBs in 2014, as these Banks face challenges in meeting capital adequacy norms according to the business standard.

Table 1

No. of RRBs in India

Year	Banks
December 1975	6
December 1980	85
December 1985	188
March 1990	196
March 1995	196
March 2000	196
March 2006	133
March 2011	82
March 2013	64
March 2014	56
March 2016	56

Source: Reserve Bank of India publication

1.3 Post Amalgamation Era (2006-2016):

Amalgamation of RRBs was done in two phases in this era. The first phase started in 2005 when all RRBs working under a sponsor Bank were amalgamated to form minimum numbers of RRBs possible. In the 2nd phase, inter sponsor Bank amalgamation of RRBs were done which started in 2013 and stopped after 2014.

Table 2

Expansion of RRBs in India

Year	No. of RRBs	No. of districts covered	No. of Branches
2006	133	523	14494
2007	96	525	14520
2008	91	534	14761
2009	86	594	15181
2010	82	616	15480
2011	82	618	16001
2012	82	620	16909
2013	64	635	17861
2014	57	642	19082
2015	56	644	20024
2016	56	644	20904

Source: Annual Reports of NABARD

This is the post amalgamation Era in which the RRBs were amalgamated even inter- sponsor bank wise. The table above shows that the number of RRBs are falling and have reduced gradually from 133 in 2006 to 56 in 2016. But still the number of districts covered by RRBs are showing a rise and branches have also expanded significantly from 14,494 in 2006 to 20,904 in 2016.

1.4 Statement of Problem:

As 75% of the population lives in villages, banking facility in the villages is a necessity for their economic development and relieving the villagers from the clutches of the moneylenders. Regional Rural Banks were set up in 1975 in India, to cater to the credit needs of rural agriculturists, artisans, small shopkeeper etc.

According to various studies conducted and committees formed, co-operatives and commercial banks were not successful in catering to the banking requirement of rural poor, which led to the establishment of RRBs. RRBs are Banks with local feel and personnel. In the 41 years' duration, RRBs have gone through several ups and downs. At a point of time according to several reports and committees, the financial viability of RRBs was questioned. It is a poor man's bank and number of loss making RRBs were on the rise along with the NPAs. With the suggestion of experts, and economists, bankers and several committees, RRBs were amalgamated in two phases-within the sponsor Banks in 2005 and inter-sponsor Bank amalgamation in 2013. The question that arises here is the impact that the amalgamation has put on the working of RRBs. Whether the role of RRBs have improved after amalgamation and led to better banking facility, credit dispersion, deposit mobilisation and availability of funds with the bank for serving the rural poor. In the last twenty years what was the role played by RRBs in economic development of the people of India and whether the original objective of serving the rural poor for which the bank was formed is fulfilled even after amalgamation.

2. Literature Review:

Mrs. Geetha R.S. (2016) was of the opinion that although the performance of Pragati Gramin Bank was appreciable but the bank requires more support from Government to be possible to attain the credit need of the masses.

Makandar (2010) in his article has studied and analysed the productivity and profitability of RRBs in India. According to him, the financial reforms brought in India has enhanced the competitiveness and financial strength of the entire Banking sector and has given necessary platform to operate with flexibility and functional autonomy thus resulting in increased productivity and profitability.

Maheswari and Chockalingam (2009) have focused on refinance facility provided by NABARD towards debt relief and rural credit. According to them, under debt waver and the debt relief scheme more than 50 percent of the claims released by NABARD in 2008 was for cooperation and RRBs. They are of the view that NABARD encourages these institutions for investing in Non-Farm activities as a solution to rural indebtedness.

Subbiah and Selvakumar (2006) in their article "Consolidation- future of Regional Rural Banks" have studied the pros and cons of merger of RRBs, recommended by some study groups. According to them, RRB is a bank of the rural poor and merger of RRBs with commercial Banks will not serve the purpose for which it was set up i.e. credit needs of the rural poor. They are of the opinion that RRBs could be consolidated by amalgamating all RRBs in India and make one single RRB covering all parts of the country. Merger of one RRB with another with the same legal position can be thought of.

2.1 Research Gap:

After viewing various literatures, it is observed that various studies have been conducted on the working and performance of the RRBs in India. Suggestions by scholars and various committees have been given to recapitalize and amalgamate the RRBs as a solution to the question of financial viability. It is in this context that the Gap in the research was found and need of the present study was established. Thus, the present study has been opted in a descriptive manner, on the role played by RRBs in Economic development of the economy.

3.1 Research Methodology:

The research design is descriptive in nature involving the survey method. Both Primary and Secondary data are collected. The research describes the role played by RRBs post amalgamation in the economic development of the economy. The research also describes the opinion of consumers towards post amalgamation development.

3.2 Objectives of the research:

The objectives of the research are:

1. To assess the opinion of consumers towards improvement in deposits and credits.
2. To analyse the opinion of employees towards improvement in deposits and credits post amalgamation.
3. To examine the opinion of employees towards different areas of improvement in service condition post amalgamation.

3.3 Hypothesis:

1. There is no significant difference in the opinion of employees of RRBs of different levels of experience towards improvement on training and development after amalgamation.
2. There is no significant difference in opinion of customers towards improvement in deposits and credit after amalgamation.

3.4 Data Collection:

During the research, both primary and secondary methods of data collections are used to collect the data. In primary method, structured questionnaire has been used to collect the opinion of employees and consumers. In secondary method, the data has been collected from published data of Reserve Bank of India and NABARD.

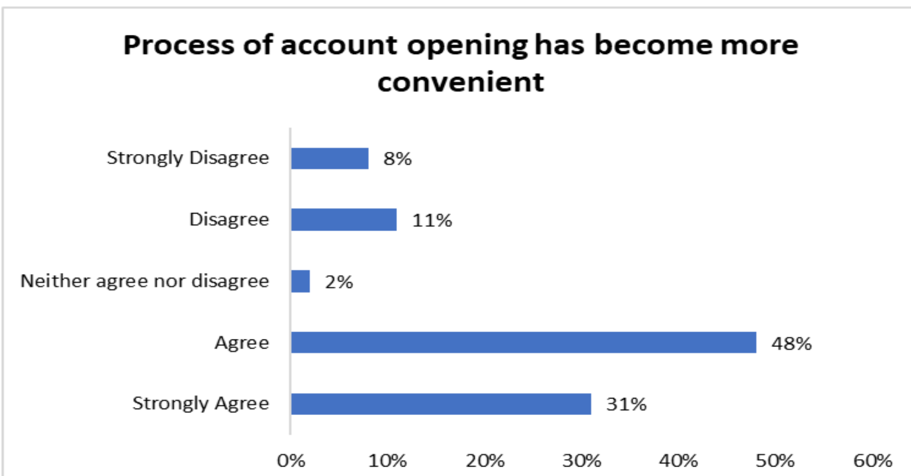
3.5 Sampling Method Employed and Sample:

During the research, convenient sampling technique has been used to collect the data from 100 employees and 100 consumers of RRBs in India.

4.1 Responses from consumers:

An attempt is made to find the opinion of consumers towards the role of RRBs post amalgamation, where following results have been obtained:

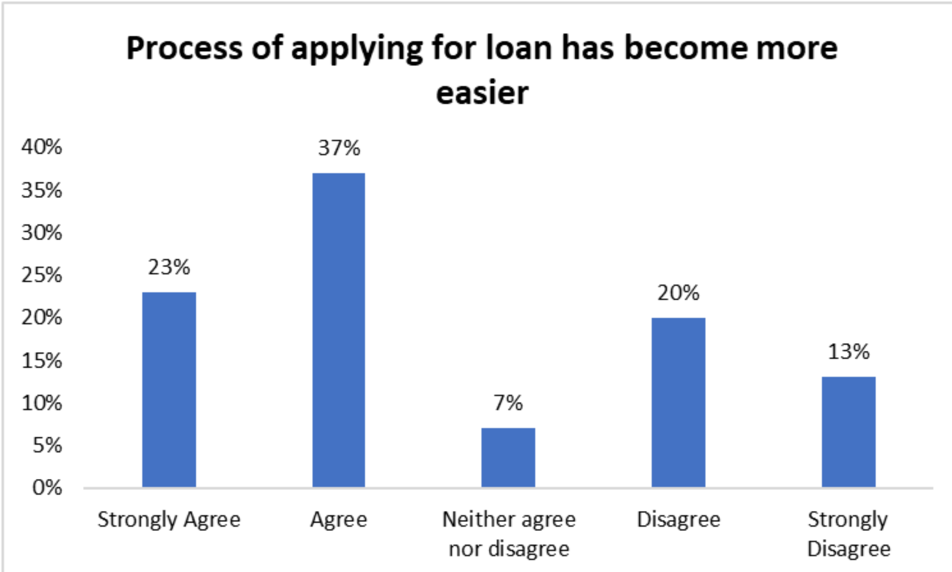
Fig. 1



(Source: Primary Data)

From figure 1 it is observed that, mostly i.e. 48% consumers agree that since amalgamation the process of opening an account with RRBs has become more convenient, which is supported by 31% of consumers who strongly agree to this.

Fig. 2



(Source: Primary Data)

From the above figure 2, it is found that majority i.e. 37% of the consumers agree that process of applying for loan has become more easier post amalgamation of RRBs, which is supported by 23% of respondents who strongly agree to this. This indicated RRBs have simplified the process of loan distribution post amalgamation.

4.2 Responses from Employees:

An attempt is made to find the opinion of employees of RRBs towards the role of RRBs post amalgamation, where following results have been obtained:

Fig. 3

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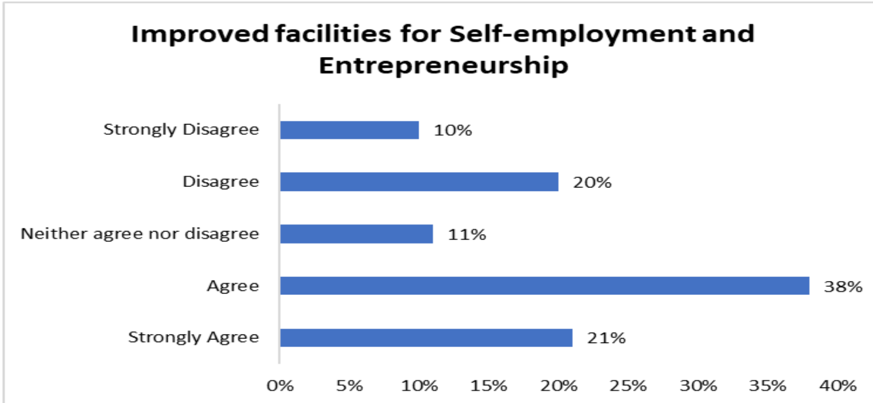
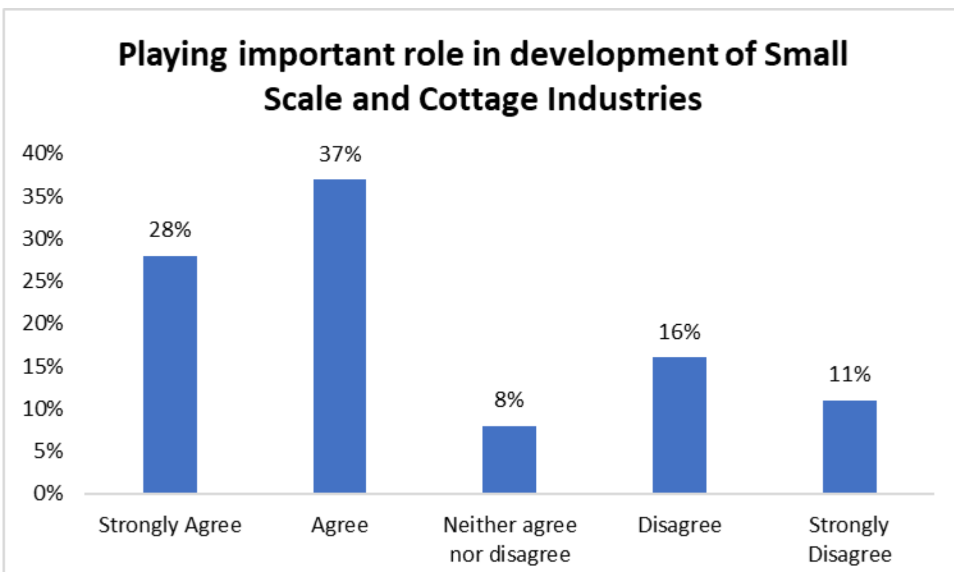


(Source: Primary Data)

From the above figure 3, it is found that majority i.e. 38% of the employees agree that RRBs has improved its facilities for self-employment and entrepreneurship post amalgamation, which is supported by 21% of the employees who strongly agree to this.

Fig. 4



(Source: Primary Data)

From the above figure 4, it is found that majority i.e. 37% of the employees agree that post amalgamation, RRBs play a vital role in development of Small Scale and Cottage Industries, which is supported by 28% of the employees.

4.3 Hypothesis Testing:

To test the hypothesis " There is no significant difference in the opinion of employees of RRBs of different levels of experience towards improvement on training and development after amalgamation" one-way ANOVA test has been applied, where following results have been obtained:

Table 2

Analysis of variance of views of employees of RRBs having difference levels of experience regarding improvement in Industrial Relations after amalgamation

Sources of Variance	df	Sum of Squares	Mean Squares	F	Sig.
Between the group	2	63.256	28.567	4.75	0.03
Within the group	98	1803.23	6.432		

Above table 2 give the ANOVA value i.e. F value of 4.75 in fifth column at 2/98 degree of freedom and the p-value i.e. sig. value 0.03 at 5% level of significance which indicates that There is significant difference in the opinion of employees of RRBs of different levels of experience towards improvement on training and development after amalgamation. Hence, the hypothesis i.e. " There is no significant difference in the opinion of employees of RRBs of different levels of experience towards improvement on training and development after amalgamation" is **failed to be accepted**.

To test the hypothesis " There is no significant difference in opinion of customers towards improvement in deposits and credit after amalgamation" , one-way ANOVA test has been applied, where following results have been obtained:

Table 3

Analysis of variance between views of customers towards improvement in the deposit and credit after amalgamation

Sources of Variance	df	Sum of Squares	Mean Squares	F	Sig.
Between the group	2	21.567	11.362	3.05	0.028
Within the group	98	1097.32	4.357		

Above table 2 give the ANOVA value i.e. F value of 3.05 in fifth column at 2/98 degree of freedom and the p-value i.e. sig. value 0.028 at 5% level of significance which indicates that There is significant difference in opinion of customers towards improvement in deposits and credit after amalgamation. Hence, the hypothesis i.e. " There is no significant difference in opinion of customers towards improvement in deposits and credit after amalgamation" is **failed to be accepted**.

5. Conclusion:

From the above data analysis and hypothesis testing on role of Regional Rural Banks in the development of an economy, it is found that RRBs play a very vital role in financing the rural economy which enhance the economic health of the country. Government has initiated various schemes through these banks and RRBs are running several financial awareness programmes for the rural poor. Bank Mitra are providing Banking facilities at the door step of the villages C/D ratio of the bank has improved and branches have expanded. During the research it was realised that RRBs have shown significant improvement in deposits and credit after amalgamation. It is further observed that RRBs are taking vital efforts in improving the economic condition of villages and for this purpose they are launching many schemes that helps to improve the financial condition of the rural population.

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