Reflections on the Performance of Regional Rural Banks (RRBs) and the Need for their Revitalization on the lines of Enhanced Access and Service Excellence (EASE)

Kumar B, Dr Pradeep Kumar B

Maharaja's College (Government Autonomous), Ernakulum

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Dr.Pradeep Kumar B
Associate Professor of Economics
Maharaja's College (Government Autonomous), Ernakulum
pkbgca@maharajas.ac.in
9496155644

Abstract

The decline in the Credit-Deposit Ratio in Regional Rural Banks (RRBs) over the years and the consequent increase in investment by RRBs in government securities and other approved securities clearly show that RRBs have deviated from their stated objective to a greater extent. In fact, RRBs are expected to cater to the credit needs of rural areas, and the lack of institutional organized credit supply in rural areas needs to be tackled with the active involvement of RRBs in the lending process. But, owing to the changes happening in the banking field especially since the onset of reforms, many RRBs have failed to live up to this spirit. Against this background, the Government of India has started attempts to reform the RRBs on the lines of the EASE (Enhanced Access and Service Excellence). With EASE being introduced to revitalize the RRBs in tune with technological changes and customer requirements, RRBs may be able to retain their position as the frontrunner of rural institutional finance in India.

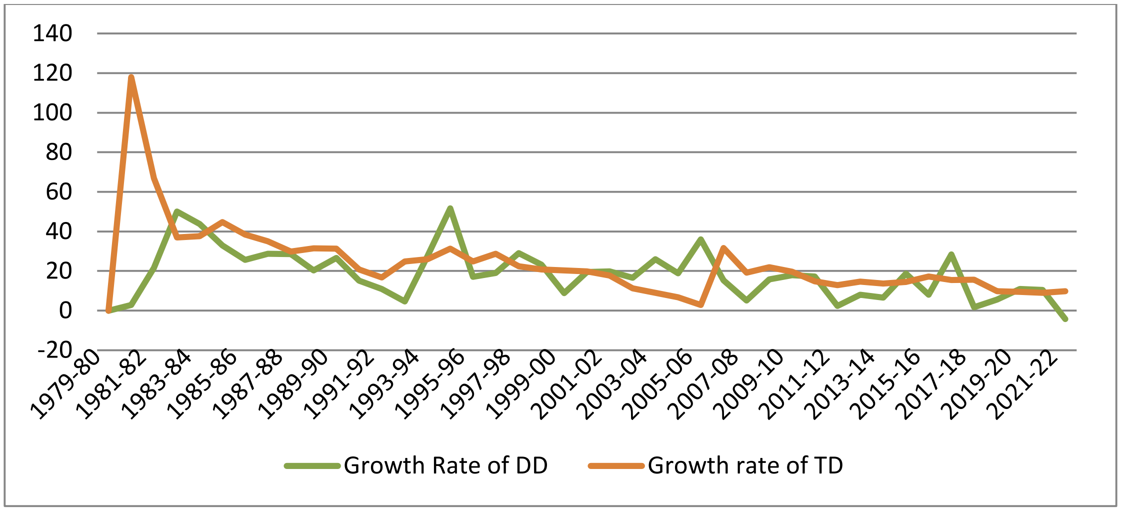
Introduction

The role of Regional Rural Banks in the rural and agricultural progress of the Indian economy has long been recognized in development literature. Although the RRBs have been sponsored by scheduled public sector commercial banks, they have shown their independent ability to cater to the emerging needs of the rural economy. Since the onset of banking sector reforms, RRBs have undergone visible deviations from their stated objectives in some spheres of their functions. In the environment of stiff competition, RRBs find it difficult to swim through the troubled waters as they do not have financial feasibility, and they do lend to highly risky areas (Ahmed, 2015). Hence, the emerging financial atmosphere thanks to the growing intensification of financial sector reforms does not appear to be providing a level playing field for the RRBs even to sustain their business, not to speak of competing with other counterparts. Moreover, as RRBs are expected to work on the principle of low margins while engaged in lending, it appears absolutely hard for the RRBs to catch up with other entities in the organized financial sector (Antil, 2020). On account of these in-built reasons, RRBs have been less effective in serving their very purpose of meeting the credit needs to a greater extent (Tiwari, Jee, Sitaramaiah, & Kumar, 2019). Studies have also shown that the performance of RRBs did not turn towards sound financial management leading to the generation of profit (Reddy & Prasad, 2011). The core purpose of the RRBs has been to enhance the quality and quantity of the rural credit delivery mechanism (Misra, 2006). Against this background, this paper looks into the current status of the RRBs in India in terms of deposit mobilization and investment portfolios, and apart from this the paper also attempts to observe whether the RRBs have committed any deviation from their stated objective of financing rural credit needs. The paper also throws light on the possibility of revamping the RRBs by bringing EASE reforms into the sphere of RRBs. This study makes use of data available in the RBI database during the period from 1979-1980 to 2021-2022.

An Analysis of the Status of Deposit Mobilization by RRBs

Like any other scheduled commercial bank, RRBs also accept deposits from people in the form of both demand deposits and time deposits. In absolute terms, both demand deposits and time deposits in RRBs have registered a tremendous growth during the period between 1979-80 and 2021-22. In 1979-80, RRBs received almost Rs.72 crores each as both Demand Deposits and Time Deposits, but in the next year, 1980-81, time deposit mobilization marked a jump to the tune of 157 crores whereas demand deposits marginally improved to 74 crores. In 2020-21, the amount mobilized through time deposits stands at 466090 crores while funds that came through demand deposits stood at just Rs.82222 crores. When it comes to the case of the growth rate of demand deposits and time deposits, it could be observed that both have shown oscillations in their trends over the period under consideration (Figure No.1).

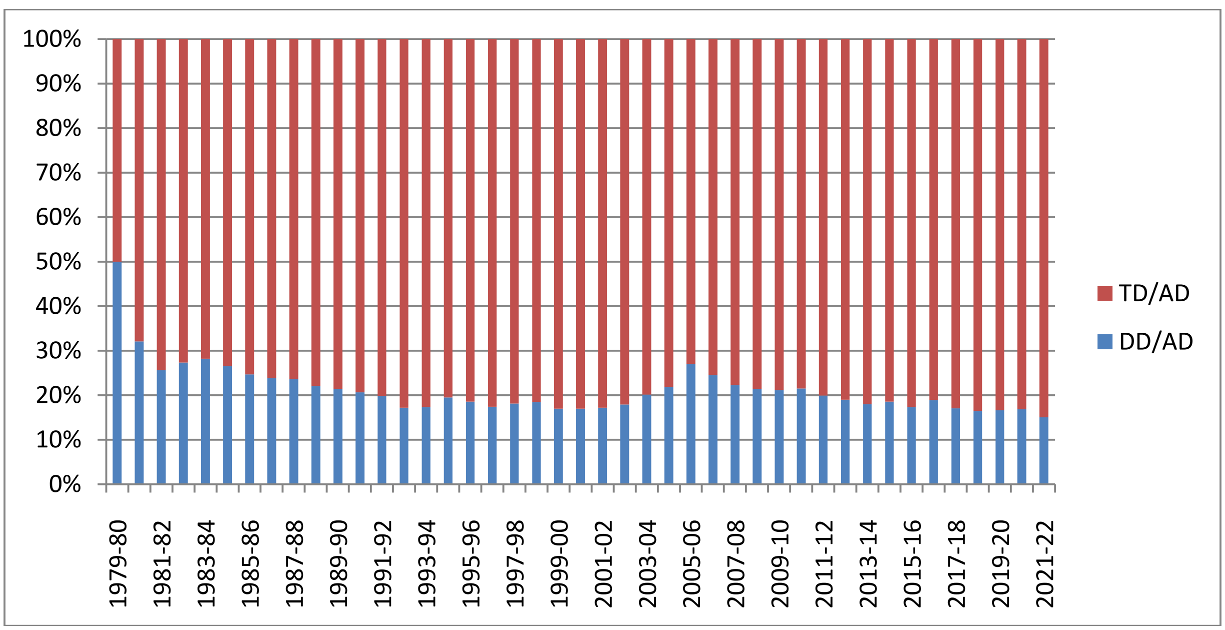
Figure 1 Growth Rate of Demand Deposit and Time Deposit of RRBs



Source: RBI Database

Moving onto the trend in the ratio of demand deposits and time deposits to aggregate deposits, it could be observed that the TD to AD has been quiet high in the case of RRBs over the period 1979-80 to 2021-22 (Figure No.2). In recent times particularly in the 2000s, the trend has completely turned in favor of the time deposits.

Figure 2 Trends in the Ratio of Demand Deposit to Aggregate Deposit (DD/AD) and Time Deposit to Aggregate Deposits (TD/AD)

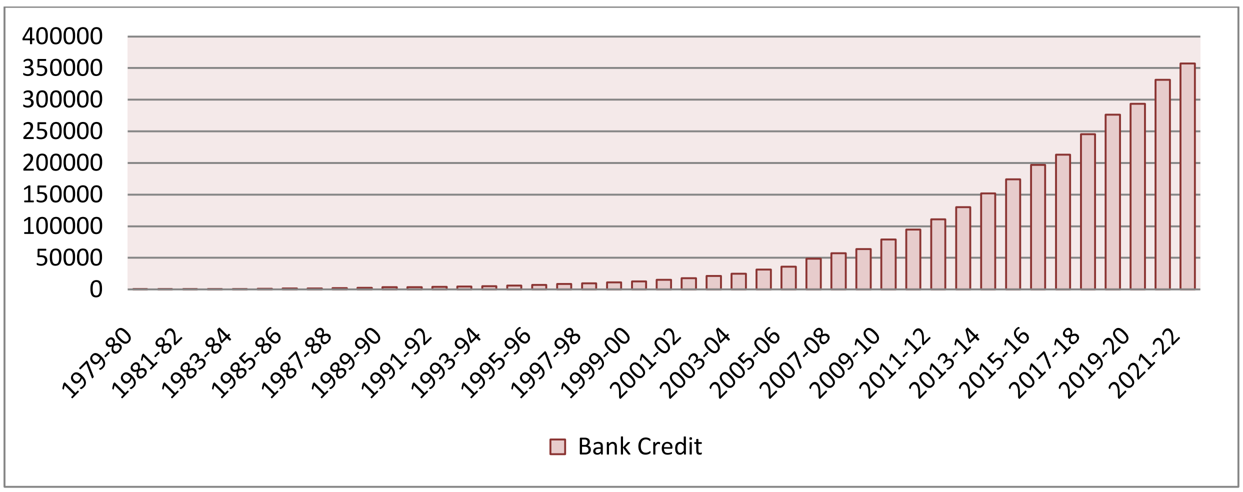


Source: RBI Database

An Analysis of the Status of Credit Disbursal by RRBs

As is obvious, RRBs stand for ensuring the availability of tailor-made loans to farmers and others living in rural areas in India. Hence, RRBs are expected to allocate available credit judiciously to ensure that all those who deserve credit in rural areas receive it. Till 2007-08, total credit disbursement by the RRBs in India was below Rs.50000 Crores (Figure No.3). In fact, it needs to be noted that since 2007-08, the absolute amount of credit disbursed by the RRBs witnessed a heavy jump. In 1979-80, RRBs disbursed credit worth Rs.173 crores in rural areas whereas it increased to Rs.1134 crores in 1984-85, and to Rs.11016 crores in 1998-99. Further in 2011-12, the amount of credit allocation skyrocketed to Rs.111082 crores, and by 2021-22, it touched a level as high as Rs.357076 crores.

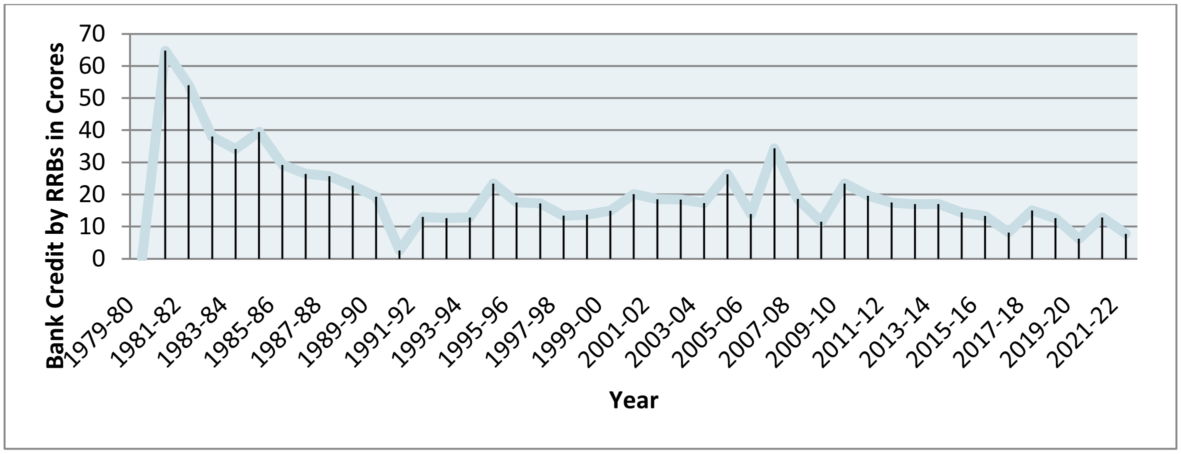
Figure 3 Bank Credit by RRBs



Source: RBI Database

Nonetheless, what deserves to be noted is the growth rate in the disbursal of credit over the period under consideration. It is interesting to note that the growth rate in the rural credit disbursement by the RRBs has never been encouraging given the growing requirements of the demand for rural credit. The growth rate in bank credit by the RRBs has actually been much more volatile in India. It has not kept pace with the growth in the demand for credit. For instance, after registering a growth rate to the tune of almost 64 percent in 1980-81, the growth continually slowed down to reach the lowest-ever rate of 2.58 percent in 1990-91 (Figure No.4). It boils down to the fact that during the pre-reform period the growth rate in the disbursal of credit by the RRBs had never been encouraging on the expected lines. Although the rate of growth in the pre-reform period had declined, the annual average growth rate of bank credit by the RRBs stood at 35.38 percent. But in the 1990s, that is the ten immediate years that followed reforms, the average annual growth rate of bank credit fell to 14.13 percent, and further in the 2000s, that is during the period of second-generation reforms, although the growth rate slightly picked up to 20.24 percent, it has again declined to 13.36 percent in 2010 and in the first two periods of 2020s. In the post-liberalization period, the highest bank credit growth (34 percent) by the RRBs was registered in the year 2006-07 and the lowest growth (6.24 percent) was shown in the year 2019-20. Again it needs to be reiterated that the initial high growth of 64 percent recorded in 1980-81 has never been repeated again.

Figure 4 Growth Rate of Bank Credit by RRBs During the period 1979-80 to 2021-22

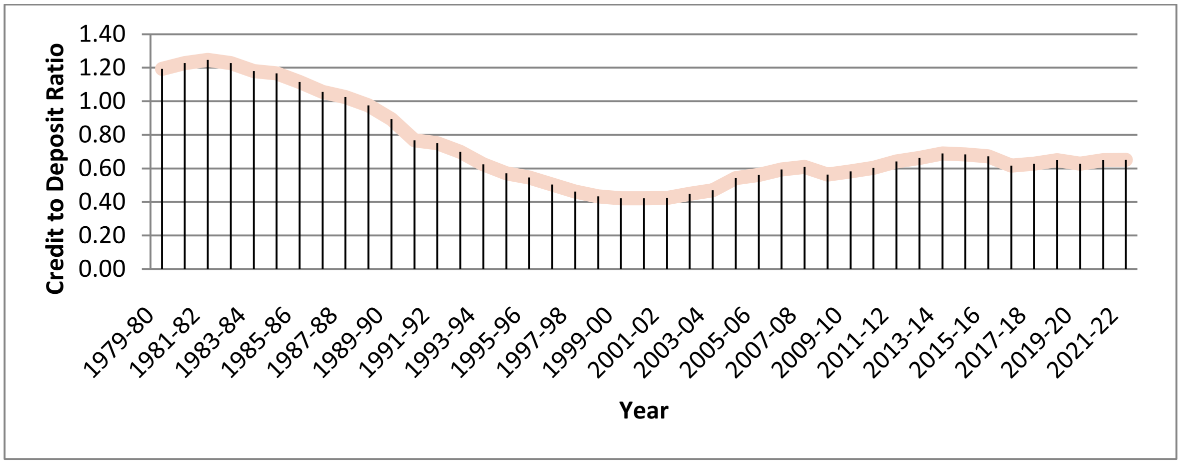


Source: RBI Database

Trends in the Credit to Deposit Ratio (C/D Ratio) of RRBs in India

An important yardstick to evaluate the performance of banking institutions in the realm of lending operation is to gauge the trend in the credit-to-deposit ratio which simply means how much part of the deposit accepted by the banks is used for lending purposes. An increase in the credit-deposit ratio has been considered a positive sign of the better performance of banking institutions. During the entire period of 1979-80 to 2021-22, the highest C/D ratio by the RRBs was witnessed in the year 1981-82. Interestingly, the C/D ratio exceeded the crucial limit of 1 during the period 1979-80 to 1987-88. Since 1988-89, the C/D ratio by the RRBs has been lying far below 1, which itself shows that the initial momentum in the case C/D ratio has not been kept by the RRBs in later years. The smallest ever C/D ratio of 0.42 was repeatedly witnessed in 1999-2000, 2000-01, and 2001-02 (Figure No.5). Since 2001-02, the C/D ratio of RRBs started picking up gradually. The worst performance of RRBs in respect of the C/D ratio took place in the period 2000-01 to 2009-10, the period of so-called second-generation reforms in the Indian economy. Hence, going by the data of the C/D ratio, it can be concluded that RRBs have not been performing on the expected lines.

Figure 5 Credit to Deposit Ratio of Regional Rural Banks

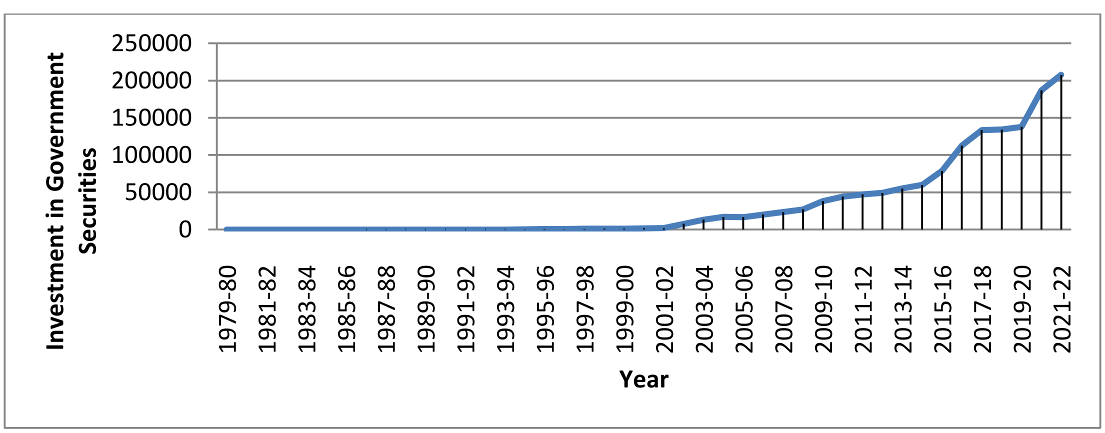


Source: RBI Database

Investment in Government Securities: Is it a deviation from the stated goals of RRBs?

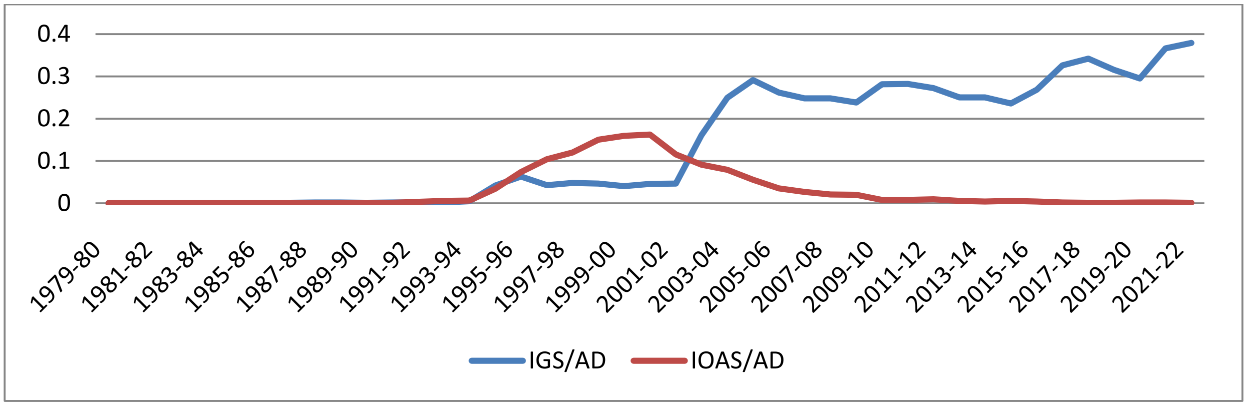
The decline in the C/D ratio of RRBs in recent times should be read along with an increasing trend in their investment in government securities (IGS) and in other approved securities (IOAS). Interestingly, investment in Government Securities by RRBs has shown an increasing trend since 2001-02 (Figure No.6). Compared to IGS (investment in government securities), the investment in other approved securities (IOAS) by the RRBs has not been so high (Figure No.7). It is quite worthy of mentioning that only during the period 1993-94 to 2009-10 that the investment in other approved securities had shown both increasing and decreasing trend (Figure No.8).

Figure 6 Investment in Government Securities by RRBs



Source: RBI Database

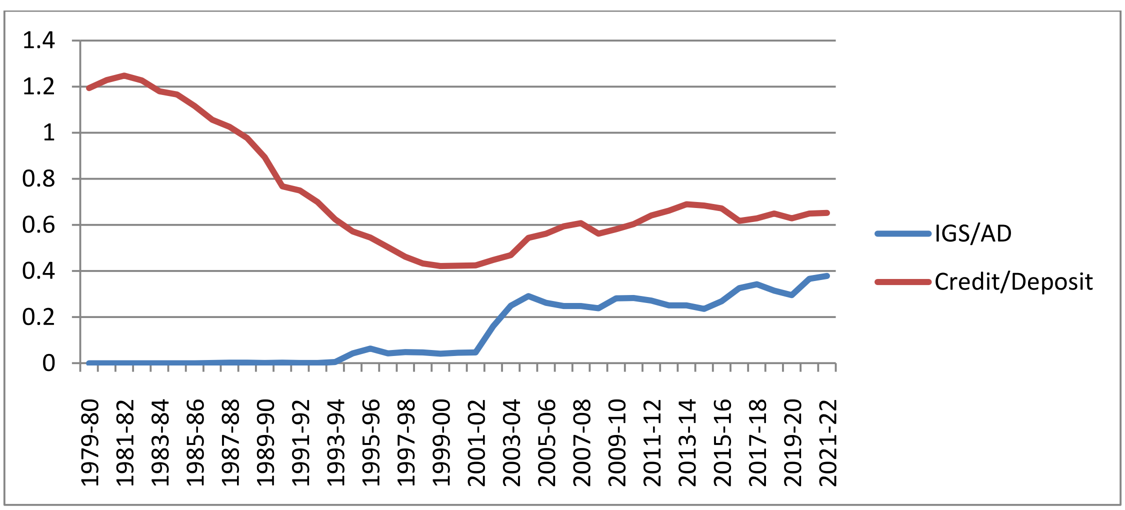
Figure 7 Comparative Analysis of IGS/AD and IOAS/AD



Source: RBI Database

Having seen the increasing trend of investment in government securities by the RRBs, now it would be interesting to examine the comparative difference in the trend of Investment in Government Securities and Credit disbursement as a ratio of deposits. The IGS/AD started rising from 1993-94 whereas the Credit/Deposit ratio had commenced its falling trend from 1981-82 itself. Nevertheless, the C/D ratio has always been higher than the ratio of IGS/AD (Figure No.8). The declining CD ratio and the gradual replacement of it by the ratio of IGS/AD apparently point towards the fact that the RRBs have been slightly deviating from their stated objective of lending enormously to the rural sector in an attempt to uplift the economic activities and living conditions of rural people.

Figure 8 Comparative Trend in IGS/AD and Credit/Deposit of RRBs in India



Source: RBI Database

Conclusion

As several studies show, RRBs have been under severe pressure as they do not appear to have been making viability, feasibility, and profitability in their banking operations including both accepting and lending money to the neediest rural folks. This is partly due to not treating RRBs at par with other commercial banks. Against this background, it has been reported that the Government of India has started attempts to reform the RRBs on the lines of the EASE (Enhanced Access and Service Excellence) initiative that aims at equipping Public Sector Banks to be smart and clean banks (Dev, 2022). The recently revamped EASE has two components. One is a common thing applicable to all banks, but the second one is bank-specific medium-term action (Pattanayak, 2022). The common reform agenda aims to enable the banks to respond to changing customer requirements, competition, and technological changes. Bank-specific medium-term plans can be more advantageous to the interest of the RRBs. Thus, with EASE being introduced to revitalize the RRBs in tune with technological changes and customer requirements, RRBs may be able to retain their position as the frontrunner of rural institutional finance in India.

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