

ROLE OF RRBs FOR FINANCIAL INCLUSION AWARENESS IN RURAL INDIA : PROSPECTS AND CHALLENGES

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Abstract

Financial inclusion plays a vital role in the economic growth of developing countries such as India. Financial inclusion is one of the important model that ensures the availability of financial or banking services to the weaker sections, low-income and vulnerable groups at a fair and affordable price. In present circumstances, financial inclusion is prime concern of the developing countries to eliminate poverty and lower the gap between rich and poor. In India, Reserve Bank of India (RBI) is the apex regulator and supervisor of the financial system, that provides banking services at a reasonable cost in the India. Under the regulation of RBI, banking sector has grown significantly over the years. Unfortunately, mostly banking services in India grow in urban sectors. For a many reasons, rural sectors are deprived of the basic banking services in their regions. The reasons are cash dependency, lack of financial literacy, limited access to banking services, security concerns and limited infrastructure. Consequently, government of India established Regional Rural Banks (RRBs) with the intent to bring banking services closer to the rural and agricultural communities. However, over some time it has been observed that these banks are not able to meet the desired objectives mainly because of certain problems such as lack of capital, lack of trained personnel, high cost operations, dependence on sponsor banks. Therefore, it is necessary to study challenges faced by RRBs in their growth and how they can overcome these challenges and expand their banking services among rural population. This study is based on secondary data collected from the annual reports of RBI,

NABARD, websites, journals and research papers. The study finds and concludes that performance of RRBs can

be improve and they will significantly contribute in the expansion of financial services in rural and backward areas.

Keywords: Financial inclusion, rural, economic growth, banking, financial literacy

Introduction

Indian banking services plays a significant role in the development of the economy of India. Functioning of banking services is essential for the nation-building. Despite higher economic growth rate recorded by Indian banking services, a large section of underprivileged people of the country still lacks basic financial services. To foster financial awareness, requirement of financial inclusion in rural as well as in financial backward areas is essential. In rural and semi-urban areas of India Regional Rural Banks (RRBs) managing and promoting banking activities at the district level. The purpose behind the establishment of RRBs is easily accessible banking and credit facilities to the rural population. To ensure the overall rural development, RRBs spreading the financial inclusion and extend credit and other banking activities to rural areas. The RRBs were established as per the recommendation of Narasimha committee to meet credit needs of small farmers, artisans and rural entrepreneurs. The basic aim of RRBs is to develop rural areas by providing credit to agriculture, trade, commerce and other productive activities in rural areas and semi-urban areas.

RRBs were set up under the Regional Rural Banks Act of 1976. The first bank was Pratham Grameen bank, established in 1975. The syndicate bank became the first commercial bank to sponsor the Pratham Grameen Bank, which is now sponsored by Punjab National Bank. The two prime regulators of RRBs in India are the Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD). All the RRBs in country is sponsored by a commercial bank, which provides necessary support and assistance. The Central Government holds 50%, the State Government holds 15% and the sponsoring commercial bank holds 35% of the stakes of RRBs. The government of India and RBI have been taken so many initiatives to strengthen RRBs and improve their performance in rural areas. In 1994-95, the comprehensive restructuring program, recapitalisation of RRBs was initiated. The process covered 187 RRBs and continued till 1990-2000. Further, the branch licensing policy for RRBs has been liberalised. The RBI permitted RRBs to open new branches and RBI also permitted

RRBs for the installation of ATMs without permission of RBI. As per the recommendation of Viyas committee (2004), government of India started the process of consideration of RRBs in 2005-06, which declined the numbers of RRBs from 196 in 2005 to 43 in 2023. The consolidation of RRBs were expected to bring better efficiency, higher productivity, improved infrastructure and significant credit flow to rural areas. In 2011, on the recommendation of K C Chakraborty committee, the government sanctioned the recapitalisation of RRBs which are unable to meet the RBI's regulatory requirements of minimum Capital to Risk-weighted Asset Ratio (CRAR) of 9%. Exceedingly large amount of Rs 10,890 cr has been authorised to RRBs in FY 2021-22 and FY 2022-23 in phased manner to rejuvenate the RRBs. This recapitalisation amount is highest in 45 years since the establishment of RRBs. Acknowledging the need to promote the spread of digital banking in rural areas, RBI allowed RRBs to provide digital banking to their customers. In 2015, RBI allowed only non-transactional services which were very tight. Later in November 2022, RBI in their revised circular permitted RRBs to offer digital transactional facilities in rural areas.

As per NABARD annual report, on 31st March 2023, there were 43 RRBs with 21,995 branches operating in 26 States and 3 UTs with 30.53 cr deposit accounts and 2.90 cr loan accounts in total. 92% of the RRBs branches are in rural/semi-urban areas. There are 17 RRBs which have acquired internet banking licence (transactional facilities) from RBI. RRBs were set up with a view to developing the rural economy by providing credit and other facilities, particularly to the small and marginal farmers, agriculture labourers, artisans and small entrepreneurs. During 1997-98, out of 196 RRBs, 70 RRBs incurred losses amounting to Rs 230.76cr in total. This may be due to heavy overhead costs, reduction in lending rates, lower profit margins, heavy increase in salaries and allowances of staff, etc. During 2001-02, out of 196 RRBs, 167 made net profit of Rs 699.93 cr while 29 suffered losses amounting to Rs 92.05 cr. Several initiatives have been taken by Indian government and RBI over the years for better performance of RRBs, but still there are number of RRBs suffering losses. In the time of 2022-23 the number of RRBs in country came down to 43 after the consolidation process. As per the data provided by NABARD, 37 RRBs in country made a profit of Rs 6178 cr and 6 RRBs that incurred losses amounting to Rs 1205 cr. The most disturbing facet of RRBs operation is that they are, on average, losing money. The main element that has contributed to their loss of profitability, is that they mainly lend to the poorer sections at low-interest rates, even with the fact that their operational costs in managing small loans are bit high. Loan recovery of RRBs is disappointing and debts are stacking up. Consequently, the overall position of RRBs in India is not quite

cheering. There is a need to take actions to improve the productivity of Rural banks so that they can serve the rural people more effectively. With the help of latest technology, internet banking and efficient management, it is possible to make RRBs more efficient, reliable and easily accessible to the rural people.

Objectives of the Study

The objectives of the study are as follows -

- To evaluate the growth of RRBs in terms of number of banks and branches.
- To study the growth of RRBs in terms of Profit, loss and net profit/ loss.
- To study the digital banking services provided by RRBs in rural India and its impact on financial inclusion in rural areas.
- To study the performance of RRBs under financial inclusion schemes.

Review of Literature

Dr Syed Ibrahim (2010) in his study on ‘Performance evaluation of Regional Rural Banks in India’ found that in the post-merger period the performance of RRBs in India improved. He further suggested in his studies that there is need to provide computerization support to RRBs to facilitate seamless integration of RRBs with the main payment systems.

Mr Bhavik Barot, Dr Gurudutta Japee (2021) conducted a study on ‘Indian Rural banking – Role of Regional Rural Banks’ in which they mention that RRBs in terms of number of bank and branches achieved tremendous growth, but the overall position of RRBs in India is not quite encouraging. They found that the poor credit deposit ratio is still making big dents on the desired functioning of RRBs.

N Savitha Devi (2014) in her research paper ‘Problems and prospects of Regional Rural Banks in India’ mentioned many problems faced by RRBs i.e., problem of inadequate finance; high overdues and poor recovery of loans; regional unbalance in banking facilities provided by RRBs; heavy loans suffered by many RRBs. She also suggested in her paper that RRBs have to focus on speedy, qualitative and secure banking services to retain existing customers and attract potential customers.

Megha D. Shetty and Sudhindra Bhat (2022) in their study ‘A case study on the Growth of Rural banking in India’ concluded that RRBs help and serve a nation in numerous ways, such as generating employment opportunities and facilitating everyday financial transactions. They

also given the current state of rural banks that more needs to be done for these institutions to become financially viable and serve the needs of rural population.

Research Methodology

This study is entirely based on secondary data. In this study descriptive and quantitative research method is used. The data is collected from the RBI reports, NABARD annual reports, various research papers, websites and internet. The study is confined only to the specific areas like number of rural banks, number of branches, income statement of RRBs, and digital banking in rural areas.

Growth of RRBs in terms in number of banks and branches

In the following Table-1 Growth of RRBs banks and its branches between 1980- 2023 the details are given.

Table 1 : Details of the Growth of RRBs banks and its branches between 1980 - 2023

| Year | Number of RRBs | Number of branches |
|------|----------------|--------------------|
| 1980 | 85 | 3279 |
| 1990 | 196 | 14532 |
| 2000 | 196 | 14462 |
| 2010 | 82 | 15303 |
| 2020 | 45 | 21850 |
| 2023 | 43 | 21995 |

Source: RBI and NABARD annual reports, 2023

Table-1 gives the details of the Growth of RRBs banks and its branches between 1980 – 2023 in terms of number of banks and branches. RRBs have rapidly grown in size and structure since it's inception in 1975. Between 1980 and 1990 number of RRBs increased drastically in the country as shown in table-1. However, government initiated consolidation program that resulted in the number of RRBs declining from 196 in 2004 to 43 in 2023. In terms of number of branches, RRBs have achieved tremendous growth. In 1980, there was only 3279 branches operating in the country which was tremendously increased to 21995 in 2023.

Growth of RRBs in terms of Profit, loss and net profit/loss(Rs. in Crore) during 2011-2023 :

In the following Table-2 Growth of RRBs in terms of Profit, loss and net profit/loss during 2011-2023 the details are given.

Table 2 : Details of the Growth of RRBs in terms of Profit, loss and net profit/loss during 2011-2023 (Rs. in Crore)

| Years | Number of RRBs | Number of RRBs in profit | Profit | Number of RRBs in loss | Loss | Net profit/loss |
|-------|----------------|--------------------------|--------|------------------------|-------|-----------------|
| 2011 | 82 | 75 | 2421 | 7 | 71.32 | 2349.43 |
| 2012 | 82 | 79 | 1886 | 3 | 28.87 | 1857.28 |
| 2013 | 64 | 63 | 2275 | 1 | 2.00 | 2273 |
| 2014 | 57 | 57 | 2694 | 0 | 0 | 2694 |
| 2015 | 56 | 51 | 2921 | 5 | 176 | 2745 |
| 2016 | 56 | 51 | 2556 | 5 | 122 | 2434 |
| 2017 | 56 | 50 | 2208 | 6 | 188 | 2018 |
| 2018 | 56 | 49 | 2604 | 7 | 387 | 2217 |
| 2019 | 53 | 39 | 1759 | 14 | 2411 | -652 |
| 2020 | 45 | 26 | 2203 | 19 | 4409 | -2206 |
| 2021 | 43 | 30 | 3550 | 13 | 1867 | 1682 |
| 2022 | 43 | 34 | 4116 | 9 | 897 | 3219 |
| 2023 | 43 | 37 | 6178 | 6 | 1205 | 4974 |

Source: NABARD annual reports, 2023

Table-2 gives the details of the Growth of RRBs in terms of Profit, loss and net profit/loss (Rs. In Crore) during 2011-2023. RRBs registered a net profit of Rs 4974 cr in 2023, which was highest since the establishment of RRBs in India. Amount of profit, loss and net profit/ loss given in table-2 with the number of RRBs which were making profits and losses between 2011-2023. In 2011, 75 RRBs earned a profit of Rs 2421 cr in which the number of RRBs who were earning profit reduced to 37 because of consideration process and the profit increased to Rs 6178 cr in 2023. Profit has been continuously increasing from 2011-2023, which shows that RRBs' position is gaining strength and stability. In 2011, 7 out of 82 RRBs were in loss amounting to Rs 71.32 cr. Only in 2014 there was no loss in RRBs all of them were earning profit of Rs 2794 cr but in 2020 they had a loss of Rs 4409 cr which is the highest between

2011-2023. There were 43 RRBs in 2023 out of which 6 RRBs have incurred a loss of Rs 1205 cr. RRBs registered net profit between 2011-2018 as seen in table-2. But in 2019 they having a net loss of Rs 652 cr for the first time since 1997 because of implementation of RRBs (employees) pension scheme. This net loss in 2020 increased to Rs 2206 cr but in the same year government infused recapitalisation amount of Rs 700.5 cr with aim to revitalise the RRBs growth. In 2023, RRBs consolidated net profit of Rs 4974 cr which is highest ever since the establishment of RRBs.

RRBs providing digital banking services in rural areas and their impact on financial inclusion in Rural India

As per the NABARD annual report, in 2023 there were 31 RRBs in the country which have acquired mobile banking licence. 17 RRBs have acquired internet banking licence after completion of RBI's eligibility criteria. The number of RRBs linked to BHIM UPI has increased to 26 and only 4 RRBs have on boarded account aggregator framework.

It has been more than a year since RBI has given permission to RRBs to offer digital banking services to their customers. After advent of online facilities in rural areas, people can easily access to financial services. Due to the benefits of digital banking such as speed, security and convenience financial inclusion has got a boost and economic banking services has given boost to India's initiative to reduce the economic gap between rural and urban areas. In the past, rural people faced multiple difficulties in availing financial services which were distance, lack of transportation and the cost of accessing banking services. However, nowadays, a more rural population connecting with digital banking, it has become easier for them to take advantages of transactional facilities provided by RRBs in rural areas.

Rural people, who earlier had difficulty in availing financial services, can now access financial services easily because of digital banking. These digital banking services are also helping in achieving the objectives of financial inclusion in Rural India which are helping in reduction of poverty and inequality in rural and backward areas, promotes economic growth and innovation in rural areas, growth in small businesses in rural areas. It opens up new opportunities for low-income groups and small businesses that have limited or no access to formal financial services. This, digital banking plays a crucial role in boosting financial inclusion in Rural India.

Performance of RRBs under financial inclusion schemes

In the following Table-3 Performance under Financial Inclusion schemes – cumulative accounts/ enrolments in core till March 2023 the details are given.

Table 3 : Details of the performance under Financial Inclusion schemes –cumulative accounts/ enrolments in core till March 2023.

| S.N. | Government scheme | 31- Mar- 2022 | | | 31-Mar- 2023 | | | YoY Growth (%) | |
|------|---|---------------|-----------|----------------|--------------|-----------|----------------|----------------|-----------|
| | | RRBs | All Banks | RRBs Share (%) | RRBs | All Banks | RRBs Share (%) | RRBs | All Banks |
| 1. | Pradhan Mantri Jan Dhan Yojana | 8.32 | 45.06 | 18.5 | 9.13 | 48.65 | 18.8 | 9.7 | 8.0 |
| 2. | Pradhan Mantri Suraksha Bima Yojana | 3.77 | 28.37 | 13.3 | 5.22 | 33.78 | 15.5 | 38.5 | 19.1 |
| 3. | Pradhan Mantri Jeevan Jyoti Bima Yojana | 1.57 | 12.76 | 12.3 | 2.24 | 15.99 | 14.0 | 42.7 | 25.3 |
| 4. | Atal Pension Yojana (APY) | 0.74 | 4.00 | 18.5 | 0.98 | 5.2 | 18.8 | 32.4 | 30.0 |
| 5. | MUDRA Loans Disbursed (Rs. Lakh core) | 0.20 | 3.31 | 6.0 | 0.31 | 4.46 | 7.0 | 55.0 | 34.7 |

Source: NABARD annual report, 2023

Table-3 gives the details of the Performance under Financial Inclusion schemes – cumulative accounts/ enrolments in core till March 2023. This is the Performance and execution of RRBs under Financial Inclusion schemes of Government of India. As seen from the above table-3, the YoY (Year on Year) growth (%) in enrolments/loans disbursed by RRBs under all Financial Inclusion schemes was higher than the growth rate of all banks during FY 2022-23. As a result of this, the share of RRBs in implementation of financial inclusion schemes improved during FY 2022-23 and it ranged from 7% to 18.8%. This is in corresponding to the 3% share of RRBs in the total custom of all commercial banks and 14% share of RRBs in branch network of all commercial banks. The highest enrolments growth (in percentage) in RRBs banks under the Financial Inclusion Scheme till March 2023 is in Mudra Loans, Pradhan Mantri Jeevan Jyoti Bima Yojana and Pradhan Mantri Suraksha Bima Yojana at 55.02%, 42.7%, and 38.5% respectively. Through these schemes, along with financial inclusion in rural areas, the inclination and awareness of rural communities towards banking services and facilities is increasing.

Conclusion

In terms of number of banks and branches, RRBs achieved massive growth. It has extended its services to 26 States and 3 UTs in the country. RRBs has been successful in serving farmers, artisans and small entrepreneurs by connecting them to banking services and providing them

credit at low rate of interest, even with the fact that their operational costs in managing small loans are a bit high. Due to this, at present RRBs are facing the problems of overdue, recovery and NPAs, which are also the main cause of losses in RRBs. To deal with these problems and strength the operations of rural banks, the government has sanctioned a recapitalisation amount of Rs 10,890 cr in FY 2022 and FY 2023. The effect of which was visible on the net profit of RRBs which was registered highest net profit of Rs 4974 cr in 2023. But on the other hand, 6 RRBs have incurred a loss of Rs 1024 cr in same year. It will still take time to improve the working of RRBs. They should adopt latest technology and set up their operations in small towns and backward areas.

However, recapitalisation scheme also helping RRBs to meet the regulatory requirement of minimum 9% CRAR, which was prescribed by RBI to RRBs in revised circular of digital banking norms in November 2022. By the advent of digital banking in rural areas through RRBs, the unserved population in rural areas has started connecting to digital transactional services. As the number of RRBs is increasing in providing internet transactional services to the unserved population, many people living in rural areas are also connecting to these services. With the help of digital banking now people living in rural and backward areas can conduct online transactions like bill payment, money transfer, checking account balances and more. Due to increase in digital banking in rural areas, there is growth in small businesses, development of infrastructure, more bank accounts being opened, which is good sign for economic development in rural and backward areas. These services are also helping in achieving the objective of financial inclusion in rural India. Despite the problems of loss, NPAs, overdue, recovery and more faced by RRBs, they have played a important role in encouraging financial inclusion and economic development in rural and backward areas.

Suggestions

RRBs serving rural and backward population since it's inception in 1975. However, they are facing various problems in their operations. There is a need to take actions to enhance the functioning of rural banks so that they can serve the rural people efficaciously with the help of latest technology, efficient management, it is possible to make RRBs more efficient, reliable and easily accessible to large section of underprivileged and vulnerable sections of the country.

- RRBs should develop a strong, quick and prompt loan recovery system in order to solve overdue problems.
- They should give more attention on deposit mobilisation, so that they can rise their own financial resources.

- RRBs should be well equipped with latest information about the areas in which they are operating so, that they may plan adequate credit policy and fulfil the aspirations of the locality.
- RRBs should organise local events, seminars and workshops to aware rural population about banking products and services in local language.
- RRBs should co-operate with local entrepreneurs and self-help groups to extend banking services to their customers.
- Mobile banking vans can be used by RRBs to offer deposit and withdrawal facilities in remote areas.
- RRBs should be more autonomous, so that they can make decisions without depending on their sponsor banks.

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