

# Financial Performance of Regional Rural Banks in Tamilnadu

G. Ramesh Pandi

**Abstract:** Regional rural banks play a crucial role for the development of rural areas, which consists of two-third population in India. RRBs provides timely credit and other required assistance to the rural population. The success of rural finance mainly depends on the financial potency and capability. Regional rural banks are the most important financial institution at the rural level which assumed the accountability of fulfilling credit requirements of rural areas. This study is conducted on the basis of secondary data collected from annual reports of NABARD. This study measures the growth pattern of RRBs, key performance indicators and financial performance of RRBs. This study used 10 year data from 2007-08 to 2016-17, and uses descriptive statistics and growth percentages to get reliable results. It was concluded that the financial performance of regional rural banks has increased significantly.

**Key Words Used:** Regional Rural Banks, Growth Pattern, Financial Performance, Key Performance Indicators, Rural Areas, NABARD.

## I. INTRODUCTION

Rural growth plays significant role in socio-economic development of a nation, where major population lives in rural areas. Rural economy has significant impact on all the economic activities in the nation and creates employment to unskilled labor segment. Rural population face lot of problems in accessing finance from formal financial institutions and banks, they largely rely on local financiers for their financial requirements. Removal of rural population problems in accessing finance for various purposes is utmost important for economic development. In India, the Banking Commission in 1972, recommended to commence an alternative financial institution in order to provide finance for rural development. Accordingly, Regional Rural Banks were commenced as a separate financial institution for rural finance through the promulgation of RRB Act of 1976.

The plan behind the creation is to inculcate the local experience and acquaintance of rural problems with characteristics of cooperatives and large resource base of commercial banks. This new growth in the financial system of India can be observed as a distinctive experiment in addition to an experience in getting better the efficiency of the rural credit delivery instrument. RRBs were commenced with a view to develop rural economy by offering credit and other facilities for the growth of trade, industry, commerce, agriculture and other productive activities in rural areas.

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Especially, small entrepreneurs, artisans, agricultural laborers and small and marginal farmers have been focused to develop their standard of living. RRBs capital is contributed by central government, state government and sponsoring bank in the ratio of 50:15:35 respectively.

## II. BACKGROUND OF THE STUDY

Regional rural banks are authorized to transact the business of banking as defined in Banking Regulation Act 1956. Moreover, RRBs are specifically designed financial institution managed under the direction of National Bank for Agriculture and Rural Development (NABARD) and the sponsor banks, spread in rural destinations with network of branches serving various districts of the nation. Regional rural banks are created to meet the demand of finance in rural areas, especially among socially and economically marginalized segments. The originality of rural credit aimed to offer finance and other support for the development of agriculture and related activities to strengthen rural economy. RRBs serve as an additional institution to the existing financial system and also decrease involvement of informal finance agencies, particularly clutches of local money lenders. RRBs have become basic part of rural finance system and considering main process in attaining banking services among the rural people. In Tamilnadu, Pandian Grama Bank and Pallavan Grama Bank are carrying out the process of banking services to the rural people.

Regional rural banks are basically commercial banks but they take on the principle of cooperative banks and works for the development of rural people. Due to its hybrid form, it is working under the guidance of two institutions that is, NABARD and RBI. Regional rural banks penetrated every part of the nation and extended assistance for the growth process of the country. RRBs mobilize deposits mainly from rural and backward areas and offer loans and advances chiefly to farmers, rural and artisans in addition to the lower sections of the society. Moreover, regional rural banks are more competent in disbursal of loans to the rural people as compared to the commercial banks. Support of state government, local contribution and involvement, and proper administration of loans and opening urban branches are some measures suggested to make RRBs further resourceful. It is the process of ensuring sensible and sufficient access to credit where required by susceptible groups such as weaker sections and low income groups. The Government of India and central bank have been making concentrated attempts to encourage banking habit as one of the significant nationwide objectives of the nation through various measures.

The prerequisite for rural development is important to the deprived segments that do not have any access to the prepared financial system; and have insufficient access to financial services.

### III. REVIEW OF LITERATURE

The effectual banking service in rural areas can promote rural entrepreneurship and improve rural people standard of living (Jha, 2008). The performance of regional rural banks has been increased after merger efforts of government (Ahmed, 2014). The performance and overall position of banks has been increased after merger of RRBs (Megha and Bhatia, 2013). The overall economic growth and poverty eradication is highly possible with the wide presence of RRBs (Jayaramaiah et al. 2013). Khankhoje & Sathye (2008) analyzed the efficiency of rural banks; it was found that bank's performance in terms of individual parameters determining the overall efficiency level as it is difficult to accurately assess the efficiency of banks. Ibrahim (2010) revealed that viability of RRBs was fundamentally dependent upon the fund management tactics, margin between resource mobilization and their employment and on the control exercised on present and potential costs with advances. The ratio of the establishment costs to total cost and expansion of branches were the critical factors, which influenced their feasibility.

Soni & Kapre (2012) evaluated the financial performance of regional rural banks in India. This study showed that key performance indicators such as, deposits, number of branches, loans and advances, investments are growing steadily. The performance of regional rural banks has been increased. Dhanraj & Saikumar (2016) stated that RRBs is a specialized rural financial institution for developing rural segment by offering finance to rural small industrialists and farmers. The performance of RRBs has significantly increased over time, as a development initiative by the government due to its amalgamation process. Geetha (2016) evaluated the performance of RRBs, the financial performance is found at satisfactory level. The deposit accumulation, loan dispersal, investment activities of RRBs are significantly improved due to the continuous monitoring and effort put by the government. Lodha & Trivedi (2015) revealed that regional rural banks have played significant role in financial inclusion of deprived segment in rural areas.

### IV. OBJECTIVES OF THE STUDY

The present study is carried out with the following objectives:

1. To assess the growth pattern of regional rural banks in India.
2. To measure the key performance indicators of regional rural banks in India.
3. To examine the financial performance of regional rural banks in India.

### V. RESEARCH METHODOLOGY

This study makes an attempt to examine the financial performance of regional rural banks. This study aimed to measure financial performance, key performance indicators and growth pattern of regional rural banks. This study is conducted with the use of secondary data which is gathered

and analyzed mainly from the Reserve Bank of India and NABARD. Moreover, other required information is collected from magazines, annual reports of banks, journals, and other published records. This study used 10 years data from 2007-08 to 2016-17, which consists of information pertaining to branch, financial details and profitability position of RRBs. It used descriptive statistics and trend percentages in order to get reliable results.

### VI. RESULTS AND DISCUSSIONS

#### 6.1. Growth Pattern of RRBs

Growth of regional rural banks plays a main role in developing its financial performance. Existence of more branches is important for delivery of various services to the customers. Expansion of branch network provides multiple service accessibility to the rural people. Due to the effort of central government, state government and commercial banks, the number of RRBs has been increased tremendously; the information pertaining to growth of RRBs is presented in table-I.

Table – I: Growth Pattern of RRBs

Year	No of RRBs	Growth (%)	Branch Networks	Growth (%)	District Covered	Growth (%)
2007-08	91	-6.2	14,761	1.31	594	11.23
2008-09	86	-6.49	15,181	2.84	617	3.87
2009-10	82	-5.65	15,480	1.96	618	0.16
2010-11	82	0	16,001	3.36	620	0.32
2011-12	82	0	16,909	5.67	638	2.9
2012-13	64	-22.97	17,861	5.63	635	0.47
2013-14	57	-11.84	19,082	6.84	642	1.1
2014-15	56	-1.7	19,964	4.60	642	0
2015-16	56	0	20,920	4.78	648	0.93
2016-17	56	0	21,422	2.40	648	0
<b>Mean</b>	<b>80</b>	<b>-13.02</b>	<b>16,927.15</b>	<b>3.12</b>	<b>606.38</b>	<b>2.7</b>
<b>SD</b>	<b>40.3</b>	<b>13.17</b>	<b>1,960</b>	<b>2.06</b>	<b>45.89</b>	<b>2.7</b>
<b>CV</b>	<b>51.38</b>	<b>-101.31</b>	<b>9.01</b>	<b>75.73</b>	<b>8.17</b>	<b>141.56</b>

Source: NABARD

It is clear that in table-I; the number of RRBs is 91 in 2007-08, which is decreased to 56 during the year 2016-17. The number of regional rural banks is continuously decreasing and shows negative growth in this period. The reason for decreasing number of RRBs is the outcome of policy measures of government. In order to increase operational efficiency, freedom and financial performance of RRBs, government has initiated to amalgamate it with sponsored banks. Moreover, it represents with mean of 80 during this period and shows standard deviation and co-efficient variation of 40.3 and 51.38 respectively.

The number of branch network of RRBs is significantly increased from 14761 in 2007-08 to 20,924 in 2016-17. It shows average growth rate of 3.12 with 16,927

bank branches during this period. The number of districts covered by the RRBs is also increased from 594 in 2007-08 to 648 in 2016-17, it brings average growth rate of 2.7 with 606 district coverage during this period. The existence of 56 RRBs plays a significant role in the development of rural economy.

### 6.2. Key Performance Indicators of RRBs

The key performance indicators in terms of number of branches, branch networks, amount of share capital and borrowing through bonds are measured. Moreover, the reserves, deposits, borrowing, investments, loans and advances, profit and loss position, and accumulated losses of regional rural banks have been presented in table-II.

**Table – II: Key Performance Indicators of RRBs**

Particulars	2015-16	2016-17	Growth
Number of RRBs	56	56	0
Branch Networks	20,920	21,422	2.40
Share Capital (Rs. in Crore)	6,387	6,401	0.22
Tier II Bonds (Rs. in Crore)	97	20	-79.40
Reserves (Rs. in Crore)	20,665	23,080	11.68
Deposits (Rs. in Crore)	3,13,499	3,71,910	18.63
Borrowings (Rs. in Crore)	47,888	51,588	7.72
Investments (Rs. in Crore)	1,69,592	2,10,984	24.40
Gross Loans & Advances (Rs. in Crore)	2,06,538	2,26,175	9.51
No of RRBs earning profit	50	49	-0.2
Profit (Rs. in Crore) (A)	2,206	2,604	18.04
No of RRBs in loss	6	7	16.67
Loss (Rs. in Crore) (B)	188	387	105.85
Net Profit of RRBs (A-B)	2,018	2,218	9.91
RRBs with accumulated losses	8	8	0
Accumulated losses	1,050	1,147	9.23

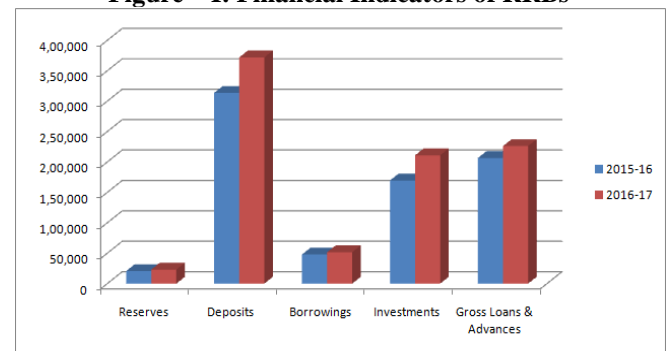
Source: NABARD

The performance indicators of RRBs during the period 2015-16 and 2016-17 are presented in table-II. The number of RRBs remains unchanged but the branch network is increased from 20,920 in 2015-16 to 21,422 in the year 2016-17. Borrowing through bond is sizeably decreased during this period. The reserve position of RRBs is 20,665 crores in 2015-16 and which is increased to 23,080 crores in 2016-17 which indicates annual growth rate of 11.68%. The deposit accumulation of RRBs is 3,13,499 crores in 2015-16 and which is increased to 3,71,910 crores in 2016-17 with annual growth rate of 18.63%. The borrowing level of RRBs is 47,888 crores in 2015-16 and which is increased to 51,588 crores in 2016-17 with annual growth rate of 7.72%. The

investment activities of RRBs is 1,69,592 crores in 2015-16 and which is increased to 2,10,984 crores in 2016-17 with annual growth rate of 24.40%. The loans and advances of RRBs is 2,06,538 crores in 2015-16 and which is increased to 2,26,175 crores in 2016-17 with annual growth rate of 9.51%.

The number of regional rural bank earning profits declined to 49 as on 21 March 2017 from 50 as on 31<sup>st</sup> March 2016, which shows negative growth of 0.2%. In addition, the number of RRBs that were sustainably feasible that is earning profits and carrying no accumulated losses decreased from 45 as on 31 March 2016 to 44 as on 31 March 2017. The net profit earning capacity of RRBs increased from Rs.2018 crores in 2015-16 to Rs.2218 crores in 2016-17, which shows 18.04% growth during this period. The accumulated losses of RRBs increased from Rs.1050 crores as on 31 March 2016, to Rs.1147 crores as on March 2017, which shows 9.91% growth and harmful for the performance of RRBs. The number of RRBs in loss increased from six in 2015-16 to seven in 2016-17. Furthermore, the number of RRBs carrying accumulated losses remained eight in 2015-16 and 2016-17 and it shows 9.23% growth during this period. The key financial indicators of RRBs for the year 2015-16 and 2016-17 are provided in figure-I.

**Figure – I: Financial Indicators of RRBs**



### 6.3. Financial Performance of RRBs

The financial performance of regional rural banks is examined with its profit earning capacity. Initially, RRBs have incurred loss but effort of government and sponsor banks assisted them to earn greater returns in the subsequent years. The financial performance of RRBs is presented in table-3.

**Table – III: Financial Performance of RRBs**

Year	No of RRBs	RRBs in Profit	Volume of Profit	RRBs in Loss	Volume of Loss	Net Profit
2007-08	91	83	1383.69	8	55.58	1328.11
2008-09	86	80	1823.55	6	35.91	1787.64
2009-10	82	79	2514.83	3	5.65	2509.18
2010-11	82	75	2420.75	7	71.32	2349.43
2011-12	82	79	1886.15	3	28.87	1857.28



2012-13	64	63	2275	1	2.07	2272.93
2013-14	57	57	2833	0	0	2833.00
2014-15	56	56	3211	0	0	3211.00
2015-16	56	56	3916	0	0	3916.00
2016-17	56	56	4315	0	0	4315.00

Source: NABARD

Table-III shows the financial performance of regional rural banks in India. Despite the gradual merger of regional rural banks with sponsor banks, the amount of net profit is decreasing from 1328.11 crores in 2007-08 to 4315 crores in 2016-17. It is clear that more than 85% of regional rural banks are functioning in a profitable manner. This profitability is enhanced with the process of amalgamation of regional rural banks; the practice of amalgamation sizeably increased the amount of profit earned by RRBs. Another notable fact, the loss incurring level is decreased considerably, the number of loss making regional rural banks have decreased to zero. It is found that the financial performance of regional rural banks is found at satisfactory level. It is also evident that better utilization of the bank funds and enhanced efficiency of RRBs.

## VII. CONCLUSION

The rapid growth and expansion of regional rural banks have assisted in decreasing substantially the regional imbalances in respect of banking services. The services rendered by the regional rural banks in deposit mobilization, branch network expansion, credit disbursal and rural development measures among weaker sectors are really praiseworthy. Regional rural banks fulfils its goals like offering banking services to deprived segment, easy and cheaper credit to weaker sectors, and promote rural savings for productive purposes. It offers credit to the small and marginal agriculturists, artisans, socially and economically deprived weaker section of people involved in agriculture, trade and industry. Regional rural banks ensures high level of transparency in their functioning which leads to better relationship with the customer and the banker. Regional rural banks are concentrating speedy, secured and qualitative banking services to its customers, which gives utmost satisfaction to them and it reflect financial position. RRBs branch network has been increasing despite its merger with sponsor banks. Moreover, the key performance indicators of RRBs reveals satisfactory financial parameters in providing credit disbursements to the rural segments. Furthermore, the financial performance of RRBs is found positive and satisfactory level. It was concluded that the financial performance of regional rural bank is enough to offer uninterrupted services to the rural areas.

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