



RURAL BANKS OF INDIA AND ITS PERFORMANCE : AN EMPIRICAL STUDY

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Abstract

The Regional Rural Banks are formed to serve the needy rural poor for the agricultural and allied activity capital requirements. It is well known that the lenders are the sufferers from non-recovery of loans lent to willful defaulters and cheaters. The banking system is the heart of any Countries' economy, striving to achieve growth and that remain a permanent and dominating factor in the global competitive business environment. To improve the rural credit mechanism and the inadequate situation led the Government of India to form a committee to find feasible solution to enable easy rural credit satisfying mechanism through Regional Rural Banks. In particular, the regional rural bank of India mainly focuses on supply of credit to the rural people. This paper attempts to study that the Performance of Regional Rural Banks of India that satisfies the rural people for their agriculture and agro-based business financial needs and in turn they earn profit for their activities through their banking activity.

Introduction

The villages are the backbone of any country. As far as India is concerned, it is populated highly with rural mass that undertakes the agriculture and its allied activities at larger level. The income from these activities occupies more in the Gross Domestic Product of India. It is well known that the banking system is the heart of any Countries' economy, striving to achieve growth and that remain a permanent and dominating factor in the global competitive business environment. They are having a favourable growth, asset quality and profitability. To improve the rural credit mechanism cooperative banking sector were also introduced earlier and that was also not in a

position to satisfy the rural needs in terms of money. This inadequate situation led the Government of India to form a committee to find feasible solution to enable easy rural credit satisfying mechanism. The committee that headed by Shri. M. Narshimam in the year 1975 came out with its recommendation to form Regional Rural Banks. In particular, the regional rural bank of India mainly focuses on supply of credit to the rural people.

This paper attempts to study that the Regional Rural Banks of India satisfies the rural people for their agriculture and agro-based business financial needs and in turn they earn profit for their activities through their banking activity.



Review of literature

Sanjay Sinha et al (2003) expressed that, "Profitability is very strongly correlated with proactive and well-judged management, and is not only two of the five Regional Rural Banks surveyed that these qualities were observed. Programmes of capacity building and motivation among managers are likely to generate high returns. *Dilip Khankhoje and Milind Sathye* (2008) in their article recommend that the existing policy of bringing down non-performing assets as well as curtailing the establishment expenditure through voluntary retirement scheme for bank staff and rationalization of rural branches are steps in the right direction that could help these banks improve efficiency further over a period of time. *Dr. Ch. Rajaram, and Dr. K. Rajendar* (2008) in their article said that "Quality of loan asset is the most important factor for the basic viability of the banking system. Lower level of non-performing assets helps the banks in consolidating their position and give credence to efficiency of the management. On the contrary, higher non-performing asset levels make their balance sheets weak and less competent. *Suresh. R.* (2010), "Regional Rural Banks of India perform well only they get more capital injection by the Government of India so as to reach the capital level on par with the commercial banks for their business activity to lend needy poor persons involved in agriculture and allied activities"

Need for the study

So far, studies have been conducted on Regional Rural Banks based on its profitability and financial performance as individual, district-wise and state-wise and comparison of Regional Rural Banks. It is felt to have a study as a whole by considering the banking activities from bankers' point of view and customers' point of view of Regional Rural Banks and how far it satisfies the either side.

Objectives of the study

The following are the objectives of the study

1. To trace the origin and growth of Regional Rural Banks of India
2. To study the physical performance of the Regional Rural Banks of India
3. To study the business performance of the Regional Rural Banks of India
4. To offer suggestions for further development of Regional Rural Banks of India.

Methodology and data collection

This paper attempts to study and analyze the banking business performance and productivity of the Regional Rural Banks in terms of branch-wise, district-wise, staff-wise and state-wise as overall. The required details for the analysis are from 2001 to 2013. The collected secondary data were involved in various statistical analyses like average, standard



deviation, coefficient of variance compounded growth rate and correlation. The hypotheses framed were tested with the parametric tests like t-test, f-test, ANOVA (Single factor).

Regional Rural Banks of India

The Regional Rural Banks popularly known as the small man's banks have taken deep roots and have become an inseparable part of the rural economy. It plays a vital and essential role in the rural institutional financing for agricultural credit in terms of

Table-1 reveals that there is a negative growth in no. of Regional Rural Banks due to amalgamation. It also reveals a merge growth in no. of districts covered, branches and staff employed that shows a light on the face of Regional Rural Banks that they have not grown in a satisfactory level which may be due to decision of Government of India to cut down the expenditure that may increase the level of profit. However the C.V. highlights a lesser variation in the no. of district coverage, no. of branches and no. of staff employed.

Null hypotheses are framed from the above physical analysis as given below;

1. There is no significant difference between the no. of Regional Rural Banks and its branches in the development of Regional Rural Banks of India.

geographical coverage, with a friendly approach and contributes more to the development of rural economy. During 2014, the population of Regional Rural Banks is 56 having a branch network of 19082 with no change in the share capital of the previous year status. As per the report of the NABARD, the provisional financial results of RRBs for the year 2013-14 indicate that all 57 RRBs have earned profits aggregating Rs. 2,833 crore as compared to 63 out of 64 RRBs earning aggregate profit of Rs. 2,275 crore in 2012-13.

2. There is no significant difference between the no. of districts covered and no. of employees in the development of Regional Rural Banks of India.

A paired t-test was performed to test the hypothesis 1 & 2 was considered to test the third hypothesis. The results are exhibited in table-2 and 3.

Banking activity analysis

In India, till inception of Regional Rural Banks the commercial and cooperative banks rendered financing services to the rural mass. After 1975, the Regional Rural Banks gained an adequate and tremendous growth in terms of number of branches in the district of India.



Table-1: No. of Regional Rural Banks, District coverage, Branches and Staff employed in India

Years	No. of RRBs	No. of Districts covered	No. of Branches	No. of staff employed
2001-2002	196	511	14,390	69,875
2002-2003	196	516	14,433	69,547
2003-2004	196	518	14,446	69,249
2004-2005	133	523	14,484	68,912
2005-2006	94	525	14,494	68,624
2006-2007	90	534	14,520	68,289
2007-2008	90	594	14,761	68,005
2008-2009	86	616	15,181	68,526
2009-2010	82	618	15,480	69,042
2010-2011	82	620	16,001	70,153
2011-2012	82	638	16,909	74,291
2012-2013	64	635	17,856	76,118
2013-2014	56	NA	19,082	NA
Average	111.31	570.67	15541.31	70052.58
S.D.	51.41	53.06	1520.14	2517.08
C.V.%	46.18	9.30	9.78	3.59
CGR% (up to 2012-2013)	Negative	1.11	2.15	0.25

Table-2 : t-test: Paired Two Sample for Means

<i>Details</i>	<i>No. of Regional Rural Banks</i>	<i>No. of Branches</i>
Mean	111.3076923	15541.30769
Variance	2642.564103	2310836.564
Observations	13	13
Pearson Correlation	-0.638272323	
Hypothesized Mean Difference	0	
df	12	
t Stat	-35.81276884	
P(T<=t) one-tail	7.18423E-14	
t Critical one-tail	1.782287548	
P(T<=t) two-tail	1.43685E-13	
t Critical two-tail	2.178812827	

Table-2 reveals that the calculated t-value is less than the t-critical value and hence it is concluded that the framed null hypothesis-1 is accepted that there is no significant difference at 5% level of confidence

between the no. of Regional Rural Banks and its branches in the development of Regional Rural Banks of India. It is also identified that there is a negative correlation among these variable.



Table- 3: t-Test: Paired Two Sample for Means up to 2012-2013

<i>Details</i>	<i>No. of districts covered</i>	<i>No. of staff employed</i>
Mean	570.67	70052.58
Variance	2815.52	6335706.81
Observations	12	12
Pearson Correlation	0.53	
Hypothesized Mean Difference	0	
df	11	
t Stat	-96.69	
P(T<=t) one-tail	0.00	
t Critical one-tail	1.80	
P(T<=t) two-tail	0.00	
t Critical two-tail	2.20	

Table-3 reveals that the calculated t-value is less than the t-critical value 2.20 and hence it is concluded that the framed null hypothesis-2 is accepted that there is no significant difference at 5% level of confidence between the no. of districts covered and no. of staff employed in the development of Regional Rural Banks of

Table-5 displays that there is a steady growth in the ways of creating sources by the banks for their business activities. The coefficient of variation exceeds 50% in all cases due to reasons of mobilization of sources at larger level when compared to the previous every time. Considering the sources of the Regional Rural Banks, a hypothesis is framed as there is no

India. It is also clear from the above that there is a moderate positive correlation among the above two variables.

The following table-5 shows the sources of the Regional Rural Banks for the periods taken for the analysis. Table-8 exhibits the application of funds of the Regional Rural Banks.

significant difference between the owned, borrowed sources and deposits in the lending process of the Regional Rural Banks that supports for the higher performance of the banking activity and the same is tested with the statistical tool ANOVA one way classification. The correlation among these three variables was also computed.



Table-5: Sources of Funds of Regional Rural Banks

(Rs. In Crore)

Year	Owned sources	% of owned to total	Borrowed sources	% of borrowed to total	Deposit source	% of deposits to total source	Total Sources
2001-2002	4,059	7.64	4,524	8.52	44,539	83.84	53,122
2002-2003	4,666	7.88	4,479	7.56	50,098	84.56	59,243
2003-2004	5,438	8.19	4,595	6.92	56,350	84.89	66,383
2004-2005	6,181	8.37	5,524	7.48	62,143	84.15	73,848
2005-2006	6,647	7.79	7,303	8.56	71,329	83.64	85,279
2006-2007	7,286	7.27	9,776	9.76	83,144	82.97	100,206
2007-2008	8,733	7.32	11,494	9.63	99,093	83.05	119,320
2008-2009	10,910	7.59	12,736	8.85	120,189	83.56	143,835
2009-2010	12,247	6.96	18,770	10.66	145,035	82.38	176,052
2010-2011	13,840	6.70	26,491	12.82	166,232	80.48	206,563
2011-2012	16,462	7.06	30,289	12.99	186,336	79.94	233,087
2012-2013	19,304	7.18	38,268	14.22	211,458	78.60	269,030
2013-2014	22,103	7.07	51,208	16.37	2,39,504	76.56	3,12,815
Average	10605.85	---	17342.85	---	118111.50	---	146060.20
S.D	5845.32	---	14954.15	---	65769.67	---	86273.42
C.V.%	55.11	---	86.23	---	55.68	---	59.07
C.G.R.%	15.19	---	24.36	---	15.88	---	16.71

Source: Compiled from the Report of RBI & NABARD

Table-6 Anova: Single Factor

ANOVA							
Source of Variation	SS	df	MS	F	P-value	F crit	Inference
Between Groups	94281158387	2	47140579193	30.86	1.69	3.26	Significant
Within Groups	55001334145	36	1527814837				
Total	1.49282E + 11	38					

Thus the calculated F-value is greater than the f-critical value, the formed null hypothesis is rejected and concluded that there is a significant difference the owned, borrowed sources and deposits in the lending process of the Regional Rural Banks that supports for the higher performance of the banking activity. This may due to high level of participation of deposits in the sources of funds and highlights that the major role is played by the deposits collected from the public in lending activity. In addition to that these three variables are also involved in testing the relationship through correction. The relationship and shows that these having a high degree of positive correlation.



The following table-7 exhibits the application of funds of the Regional Rural Banks for the periods taken for the analysis.

Table-7: Applications of Funds (Rs. In Crore)

Year	Advances	% of advances in total applications	Investment	% of investment in total applications	Total Applications
2001-2002	18,629	37.89	30,532	62.11	49,161
2002-2003	22,158	40.13	33,063	59.87	55,221
2003-2004	26,114	41.95	36,135	58.05	62,249
2004-2005	32,870	47.21	36,762	52.79	69,632
2005-2006	39,713	49.09	41,182	50.91	80,895
2006-2007	48,493	51.50	45,666	48.50	94,159
2007-2008	58,984	54.85	48,560	45.15	1,07,544
2008-2009	67,859	50.83	65,630	49.17	1,33,489
2009-2010	82,819	51.06	79,379	48.94	1,62,198
2010-2011	98,917	53.35	86,510	46.65	1,85,427
2011-2012	1,16,385	54.81	95,975	45.19	2,12,360
2012-2013	1,39,837	55.82	1,10,684	44.18	2,50,521
2013-2014	1,59,660	59.10	1,10,514	40.90	2,70,174
Average	70187.54	---	63122.46	---	133310.00
S.D	46373.48	---	29988.85	---	76101.54
C.V.%	66.07	---	47.51	---	57.09
C.G.R.%	20.05	---	12.79	---	16.23

Source: Compiled from the Report of RBI & NABARD

It is evident from coefficient of variation that advances and investment varies more due to faster application of funds for interest resources. The compounded growth rate also shows a satisfactory position, but in case of advances outstanding the banker should take precautionary steps to protect the

banks from non-performing assets. A null hypothesis is framed that there is no significant difference in performance between advances and investments and the same is tested with F-test. The results were exhibited in table-8.

Table-8: F-Test Two-Sample for Variances

	<i>Advances</i>	<i>Investments</i>
Mean	70187.53846	63122.46154
Variance	2150499740	899330875.1
Observations	13	13
df	12	12
F	2.391221963	
P(F <= f) one-tail	0.07256792	
F Critical one-tail	2.686637113	



Since the calculated F-value is less than the F-criterion value 2.69 at 5% level of significance. Hence the formed null hypothesis is accepted and concluded that there is no significant difference in performance between advances and investments. It shows the application ways are almost equal. This is proved through correlation analysis that these two variables have a high degree of positive correlation.

Credit Deposit Ratio

The Regional Rural Banks were formed to develop the rural economy by providing credit and other facilities for the purpose of the development of the agricultural activities of the targeted poor people. The CD Ratio is showing a steady growth from 41.83% to 66.13%. It shows a positive performance of

utilization of funds from the source deposits and both of them are having high degree of positive correlation.

It is also essential to consider the comparison of total sources and total utilization of funds by the banks to identify the effective banking activity.

The utilization of sources during the entire study period is more than 90%, except the year 2010-2011. It is evident that the banks have performed well in their banking activity. A null hypothesis is framed that there is no significant difference in performance between total sources and utilization which was tested by F-test. The results have been shown in table-9.

Table-9: F-Test Two-Sample for Variances		
	<i>Total Sources</i>	<i>Total Utilization</i>
Mean	146060.2308	133310
Variance	7443103403	5791443758
Observations	13	13
df	12	12
F	1.28518962	
P(F ≤ f) one-tail	0.335386183	
F Critical one-tail	2.686637113	

The calculated F-value 1.28 is less than the F-criterion value 2.69 at 5% level of significance. Hence the formed null hypothesis is accepted and concluded that there is no significant difference in performance between total sources and utilization. It shows the utilization is

almost equal to sources. This is proved through correlation analysis that these two variables have a high degree of positive correlation.



Conclusion

The performance of the Regional Rural Banks in India since 1975 is good, even though the Regional Rural Banks faced so many numbers of crises and competition with other banks. The negative results shown in the above study does not mean that the banks did not perform well, but due to the measures as downsizing the banks taken by the Government of India to protect the Regional Rural Banks from its doldrums. It is clear that the Regional Rural Banks are competing with other banks with its limited resources and restrictions. It is found that the state of Nagaland is totally neglected in opening the Regional Rural Banks. Initiative measures should be taken to give total coverage in districts located in India by forming Regional Rural Banks. The private sector banks should to be insisted for opening of Regional Rural Banks on par with nationalized banks. When these measures are taken, it is sure that the banking system in India will come up and it is possible to bring the banking activities to international standard.

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