Challenges of Regional Rural Bank (RRB)

Why in News?

Regional Rural Banks losing ground to private banks amid tech challenges.

What are regional rural banks?

- **Inception** – It was ***established in 1975***, the *first RRB was Prathama Bank*, in Moradabad, Uttar Pradesh.
- **Objective** – It aims to provide *banking and credit facilities for agriculture and rural sectors*, combining the features of cooperatives with the professionalism of commercial banks.
- **Ownership** – RRBs are sponsored by
  - **Central Government** – 50% of stakes
  - **State Government** – 15% of stakes
  - **Commercial Bank** – 35% of stakes
- All public sector banks, except Punjab & Sind Bank, sponsor one or more RRBs.
- J*&K Bank is the only private sector bank* that sponsors an RRB.
- **Services offered** – They provide various banking services *in rural and semi-urban areas* like

Regular Functions	Additional Functions
• Savings accounts • Current accounts • Loans and Advances • Insurance products	• Assists in proliferating government schemes • Helps in disbursement of wages under rural job guarantee schemes • Helps in pension distribution

- **Banking norms** - The *interest rate on the loan are very low* compared to commercial banks, making it easier for rural people to access credit.
- They have *higher priority sector lending responsibility* to lend a *minimum of 60%* of all its capital to agriculture sector and other priority sectors such as
  - Small or medium sized manufacturing or service businesses or housing in rural area.

Status of RRB's in India
• **Number** - 43 RRBs sponsored by 12 Scheduled Commercial Banks. • **Branches** – 21,995 branches across 28 states & 8 Union Territories. - 92% of branches are in rural or semi-urban areas. • **Coverage** – 305.3 million deposit accounts & 29 million loan accounts. • **Loss-Making RRBs** – Six RRBs reported losses in FY 2022-23. • **Profitable RRBs** – Seven RRBs turned profitable during FY 2022-23.

Why there is a large digital deficit in RRBs?

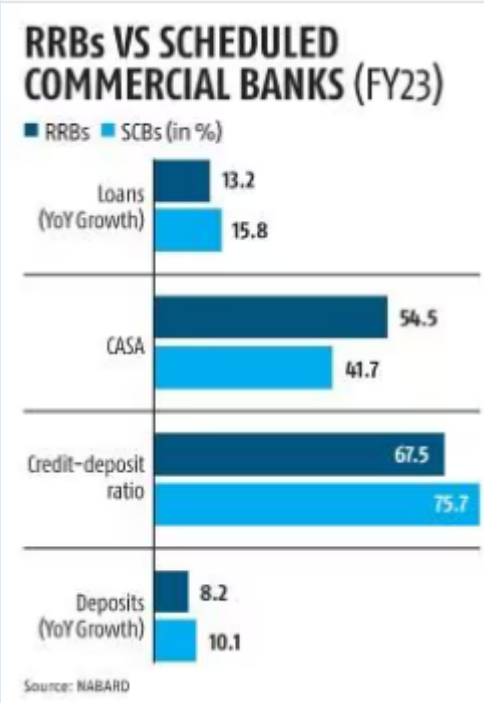
- As farmers become more digitalised, they look for internet banking.
- RRBs are serving the third generation of farmers, and the new generation demands digital banking and other advanced services.

Digital deficit

• Also known as *digital divide*, it is the *disparities in access, adaptation and application* of information and communication technologies (ICTs).
• **Access divide**- This refers to the physical availability of technology and internet connectivity, heavily influenced by socio-economic factors and geographic location.
• **Use divide**- This highlights the differences in digital skills among individuals, which can prevent effective use of available technologies.
• **Quality of use divide** - Lack of knowledge to utilize technology effectively for maximum benefit.

Digital deficit in RRBs

• **Less Mobile Banking licence** – Only 31 RRBs have acquired mobile banking licence.
• **Fewer Internet Banking license** – only 17 RRBs have internet Banking facilities.
• **Low UPI adoption** – Only 26 RRBs have been on boarded to BHIM UPI.



- **Lack of basic infrastructure** – Some branches even have a single room doubling as a washroom and the *cash rooms are poorly maintained*, with faded walls and an unpleasant odour.
- **Subpar operation** – There are *issues of mismanagement* and a *lack of professionalism* have impeded progress.
    - In western Uttar Pradesh, *many RRB branches lack security guards* despite holding cash reserves of around Rs 10 lakh.
    - Staffed by just a manager and a cashier, these branches often operate in subpar conditions.
- **Outdated tools** – RRB is *struggling to provide ATM cards and cheque books immediately* to the new customers whereas in private banks, customers receive all the

basic tools within hours.

- **Financial issues -** A significant *burden of non-performing assets (NPAs)* has persisted, leading banks to focus their efforts on reducing these problematic loans.

Non-Performing Assets (NPAs) are the assets which ceases to generate income for the bank.

- **Limited Connectivity-** Poor internet connectivity in rural areas can hinder the deployment and effectiveness of digital banking solutions.
- **Traditional Focus-** RRBs have traditionally focused on providing basic banking services and may not have prioritized digital banking as a core function.
- **Competition from their sponsor** – The increasing presence of private sector banks has made the situation more challenging.
- RRB's Sponsor banks itself have emerged as their primary competition.

What are the steps taken to improve the status of RRB's?

- **Recapitalization** – Government have *infused Rs 10,890 crore* into RRBs during FY22 and FY23.
- **Technological Upgrades** – Efforts are underway to enhance RRBs' digital capabilities, supported by the Finance Minister's emphasis on technological improvements.
    - In 2023, Government emphasized the need for RRBs to upgrade their digital capabilities and increase penetration *under the Pradhan Mantri Mudra Yojana*.

A 2022 National Bank for Agriculture and Rural Development (NABARD) report highlighted that RRBs need to enhance their loan recovery processes through technology, policy improvements, and best Practices.

What lies ahead?

- **Modernize IT Systems-** Upgrade to advanced core banking systems to enhance efficiency and provide digital banking services.
- Equip branches with tools like ATMs, cash deposit machines, and cheque imaging systems to streamline customer transactions.
- Develop user-friendly digital interfaces for online and mobile banking to enhance the customer experience.
- **Improve connectivity-** Invest in better internet infrastructure and connectivity, especially in remote and rural areas.
- **Upgrade data management systems** – For better handling of customer information and financial data.
- **Policy Updates-** Align policies with modern banking practices to facilitate smoother digital transformation.
- **Capacity development**- Provide comprehensive training programs for staff on new digital tools and technologies.

- **Enhance physical security**- Measures like security guards and surveillance systems to protect cash and digital assets.

References

1. Business Standard | Regional Rural Banks

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