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NABARD RESEARCH STUDY - 28

Study on Improving Operational and Financial Efficiency of RRBs

Primus Partners Private Limited

आर्थिक वश्लेषण और अनुसंधान विभाग
Department of Economic Analysis & Research
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About NABARD Research Study Series

The NABARD Research Study Series has been started to enable wider dissemination of research conducted/sponsored by NABARD on the thrust areas of Agriculture and Rural Development among researchers and stakeholders. The *'Study on Improving Operational and Financial Efficiency of RRBs'* completed by Primus Partners Private Limited is the twenty-eighth in the series. The list of studies in the series is given at the end of this report.

Regional Rural Banks (RRBs) were established in 1975 on the recommendation of the Narsimham Working Group with the particular objective of catering to the financial inclusion needs of the small and marginal farmers, agricultural labourers, artisans and weaker sections of the society. RRBs are jointly owned by Government of India, State Governments and Sponsoring commercial banks with equity contribution in the ratio 50:15:35 respectively. 92% of RRB branches are located in rural/semi-urban areas and 90% of their total loan portfolio is towards the priority sector. Post amalgamation, the number of RRBs has come down from 196 in FY 2004-05 to 43 now.

This study report examines the challenges faced by RRBs through the prism of processes, policy and technology in order to identify the core pain points faced by them. The report also explores fintech initiatives and collaborations that can be implemented to enhance technological viability of RRBs in order to reduce their cost of catering banking solutions to the rural population.

Hope this and other reports we are sharing would make a good reading and help generate debate on issues of policy relevance. Let us know your feedback.

Dr. KJS Satyasai
Chief General Manager
Department of Economic Analysis and Research

Study on Improving Operational and Financial Efficiency of RRBs

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Table of Contents

Executive Summary

Regional Rural Banks (RRBs) were established via the RRB act, 1976 with the aim of developing the banking systems in rural parts of India for the purposes of agriculture, commerce, industries, and other credit needs. RRBs cater to a more scattered population that demand smaller ticket loans, and these banks operate under strict operational and lending norms. Recently, RRBs faced losses in two consecutive years in 2019 and 2020, and tough competition from newer Small finance banks [SFBs] who target a similar population has resulted in reduced operational and financial viability for these banks.

The report analyses the challenges faced by RRBs from three angles – processes, policy and technology. These angles help enable the identification of core pain points faced by these banks

Many of the present banks have turned to digitalisation in order to reach the remotest parts of the country and help them access banking facilities. With digitalisation being at the forefront of banking systems and operations, this report touches upon ideas and implementable solutions for RRBs to enable them to efficiently cater to the rural population within policy norms prescribed by RBI.

The report further explores probable fintech initiatives and collaborations that can be undertaken to enhance the technological viability of these banks and reduce the costs of catering banking solutions to a rural clientele.

Chapter 1 : Introduction

Nearly 70% of the total Indian population reside in rural areas, laying a larger impact on the economic situation of the country. Consequently, there is a need for a robust and efficient banking system in rural areas, offering customized products and timely credit at affordable rates, unlike traditional moneylenders providing loans at very high interest rates.

RRBs play a vital role in the growth and development of rural and backward areas in a developing country like India. The Study on *'Improving Operational & Financial Efficiency of RRBs'* emphasizes on the significant and crucial role played by RRBs in the development of rural areas and recommend measures to resolve challenges faced by them.

Objectives of the Study

- **Help RRBs deliver financial solutions while improving operational efficiency and enhancing NPA management**
- **Mainstream RRBs in the financial system with different schemes like Agricultural Infrastructure Fund, Animal Husbandry Infrastructure Fund etc.**
- **Help RRBs become sustainable given competition faced from SFBs & NBFCs and to be in tune with the products offered by such institutions**

Approach & Methodology

The study is based on statistics amassed from the Annual Reports, Key Statistics Report of RRBs and NABARD from 2016 to 2021. Statistical analysis on revenue, cost, non-performing assets and product portfolio was conducted to understand historical and current trends.

This information has been sourced through primary research by connecting with sponsor banks like State Bank of India on best practices and areas of opportunities and with state government officials on their mandates and policies.

Discussions with various departments of NABARD were also carried out to understand current policy regimes, processes in place and technological background.

Fintech companies were interviewed to understand the potential solutions and suggest recommendations against challenges faced by RRBs.

Chapter 2 : Background on Regional Rural Banks

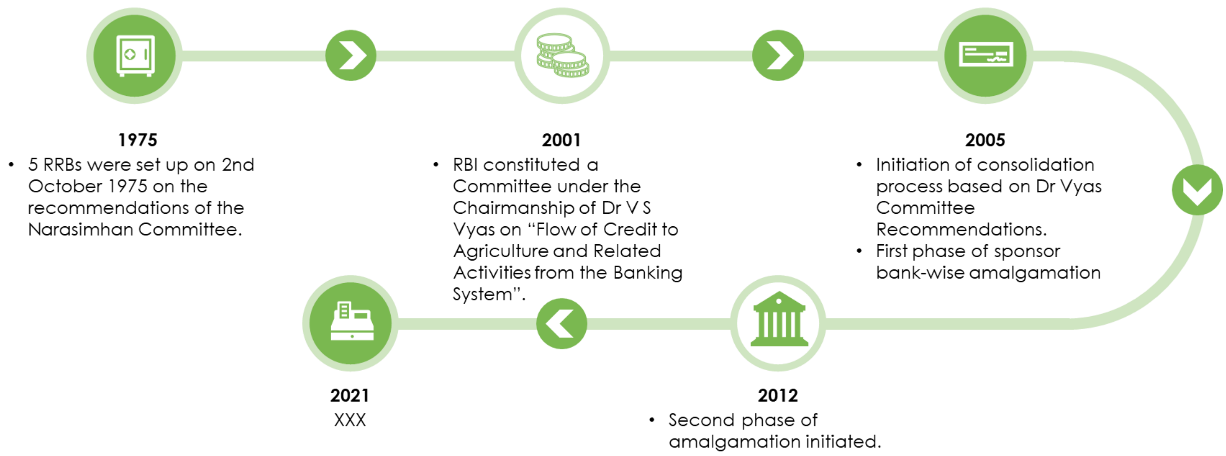
Origin and History of RRBs

RRBs were established under the provisions of an ordinance passed on 26 September 1975 and the RRB Act 1976. These were envisaged as low cost institutions combining local feel and familiarity of cooperatives and professionalism of commercial banks

As a result, 5 RRBs were set up on 2 October 1975 on the recommendations of the Narasimhan Committee.

The first RRB was Prathama Bank, with head office in Moradabad, Uttar Pradesh. It was sponsored by Syndicate Bank and had an authorised capital of INR 5 Crores. The other 4 RRBs were:

- Gaur Gramin Bank (sponsored by UCO Bank),
- Gorakhpur Kshetriya Gramin Bank (sponsored by State Bank of India),
- Haryana Kshetriya Gramin Bank (sponsored by Punjab National Bank), and
- Jaipur-Nagpur Anchalik Gramin Bank (sponsored by UCO Bank).



Evolution of RRBs over the years

2001: The RBI constituted a Committee under the chairmanship of Dr V S Vyas on *"Flow of Credit to Agriculture and Related Activities from the Banking System",* thereby examining the relevance of RRBs in the rural credit system and the alternatives for making it viable.

2005: Thus, the consolidation process was initiated based on Dr Vyas Committee Recommendations. The first phase of sponsor bank-wise amalgamation was initiated within a state in 2005

2012: The second phase of amalgamation initiated across sponsor banks within a particular state. The process was initiated with a view to provide better customer service enabled by strong infrastructure, computerization, experienced work force, common publicity, and marketing efforts etc. The amalgamated RRBs also benefit from larger area of operation, enhanced credit exposure limits for high value and diverse banking activities. As a result of amalgamation, number of the RRBs reduced from 196 to 56 as on 31 March 2015. The number of branches of RRBs stood at 20,024 as on 31 March 2015 covering 644 districts throughout the country.

2020: The RRBs have not been performing well with 17 out of the 43 RRBs in losses in 2020. The union government disbursed out ₹670 crores to help RRBs meet the regulatory requirement of 9% CRAR.

Current Scenario: Many new banks have been granted SFB licenses, and are better equipped digitally to cater to the rural population. In this context, while RRBs work under stringent lending norms, it is important that the digital viability of RRBs be increased which will have cost and revenue implications.

General Features of RRBs

01 The authorized capital of an RRB is fixed at Rs. 2,000 crore.

02 Of the issued capital, 50 per cent is to be subscribed by the Central Government, 15 per cent by the concerned State Government and the rest 35 per cent by the sponsoring bank.

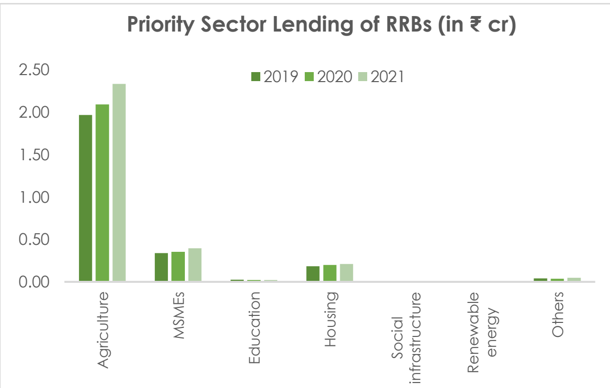
03 Sponsor Banks give governance and managerial support, equity, financial support, operational guidance and capacity building support. NABARD gives policy intermediation and supervisory guidance.

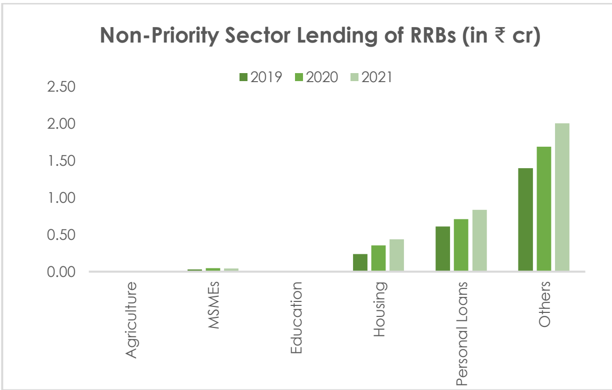
04 CRR for RRBs are set at 4% and SLR at 18% of their total net liabilities, by RBI.

Products and Targets

The RRBs were established with the mandate to disperse credit to the rural strata, catering to a population who demand smaller ticket loans but in higher volumes. RRBs have a target of 75% set for priority sector lending (PSL) like Agriculture (small and marginalized farmers), MSME, Education, Housing, Social Infrastructure and Renewable energy. The RBI has published guidelines on various customers to target under PSL and non-PSL.

RRBs also give out gold, vehicle and personal loans as part of their portfolio. Additionally, they offer services like safety deposit lockers, NEFT and RTGS etc. which help them with other income streams and commissions.



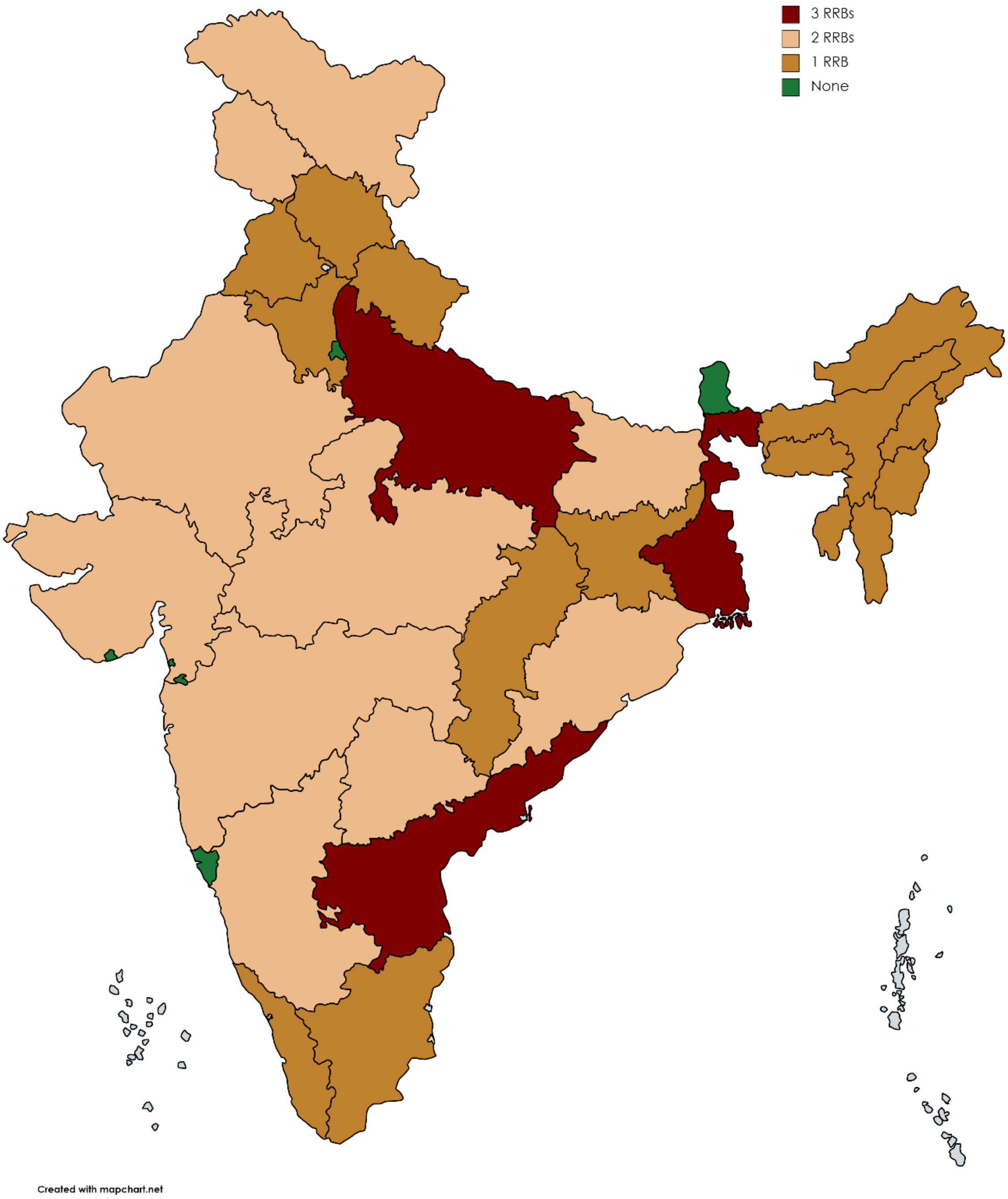


A brief summary of Sub-targets under PSL include:

Sector	Sub targets
1. Agriculture	1. Farm Credit, which includes loans to individual farmers, SHGs (Self-Help groups) or JLGs (Joint Liability Groups), Kisan Credit Card Scheme etc. 2. Agricultural Infrastructure which includes loans for storage facilities, soil conservation and watershed dev., seed production and plant tissue culture among others 3. Ancillary activity loans for disposal of produce, agri-clinics, etc.
2. Manufacturing sector	Include all MSMEs, service sectors MSMEs, Khadi & Village industries and PMJDY accounts
3. Education	Loans for educational purposes including vocational courses
4. Housing	Loans for the purchase and construction or repair of dwelling units and loans for housing projects for ESW (Economically Weaker Section) and LIGs (Low Income Groups) among others
5. Social Infrastructure	Loans for building social infrastructure for activities namely schools, health care facilities, drinking water facilities, sanitation facilities among others
6. Renewable Energy	Loans for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities among others

RRBs aim at providing financial inclusion support to hinterland areas and offer services like opening PMJDY (Pradhan-Mantri Jan Dhan Yojana) accounts, insurance schemes like PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojana) and PMSBY (Pradhan Mantri Suraksha Bima Yojana) and pensions schemes like APY (Atal Pension Yojana). The RRBs currently have 18% (₹7.96 crore) of the total PMJDY accounts (₹43.76 crores) as of October 2021.

Coverage



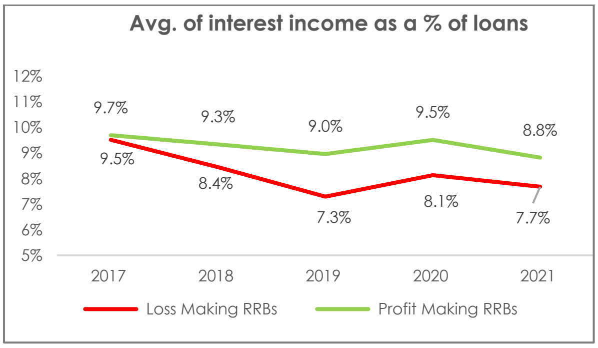
Chapter 3 : Financial Performance Indicators and Analysis

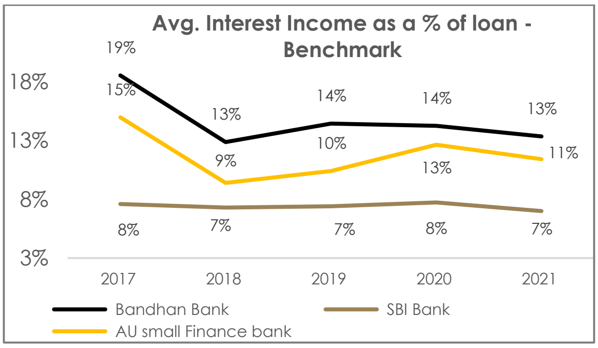
A thorough financial statement analysis of RRBs was conducted for the last 6 years. The analysis is based on the assessment across Revenue, Expenditure, Investment and NPA parameters, along with a comparative study with Small Finance Banks and other Commercial Banks.

A. <u>Low interest income</u>

Loss making RRBs have been earning almost lower interest income on loans disbursed over the last 5 years primarily due to product mix and interest rates.

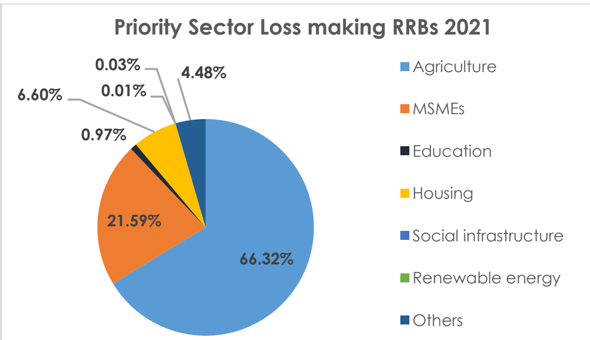
- Profit making RRBs have received a higher interest on loan disbursed (8.8%) over the last 5 years compared to loss making ones (7.7%). RRBs have performed worse when benchmarked against SFB's like Bandhan bank and AU Small Finance bank.
- Further, both the SFBs (Bandhan bank and AU Small finance banks)m have much higher interest income as % of loans, which is hovering around 11% - 13%, while public sector banks like SBI are at par with RRBs at ~7%.

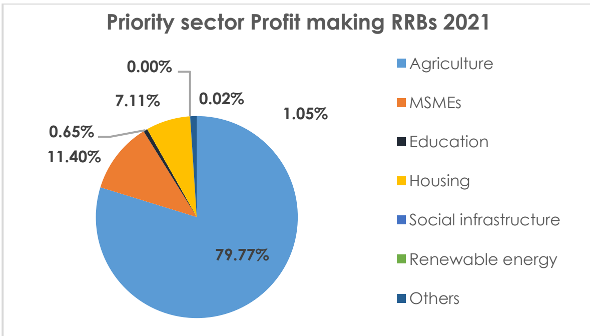


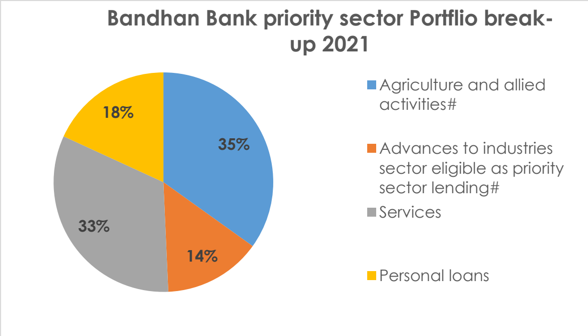


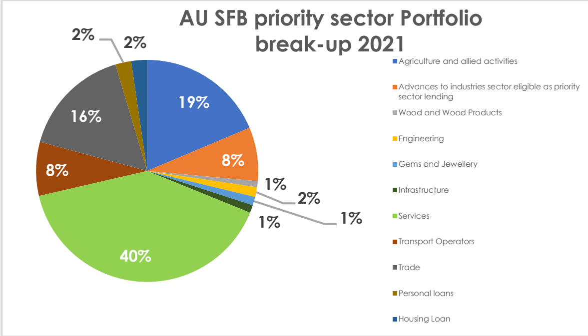
Loss making RRBs are not investing in or promoting their higher interest products which could enable them to increase interest income. The product mix is heavily skewed towards agriculture and MSME sectors due to RBI mandates

RRBs have a heavily skewed portfolio to agriculture due to PSL targets. SFBs have a more balanced portfolio comprising of agriculture, services sector, gold, vehicle, personal etc. Interest rate setting and product portfolio are decided by RRB boards, under the guidance of the sponsor banks.



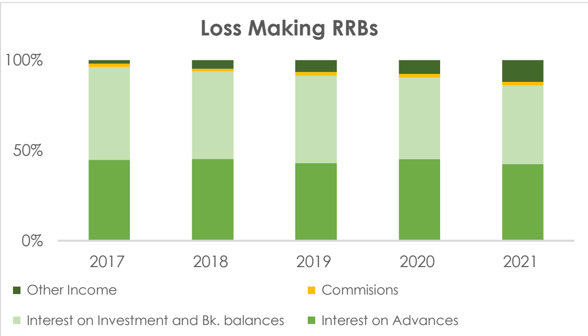


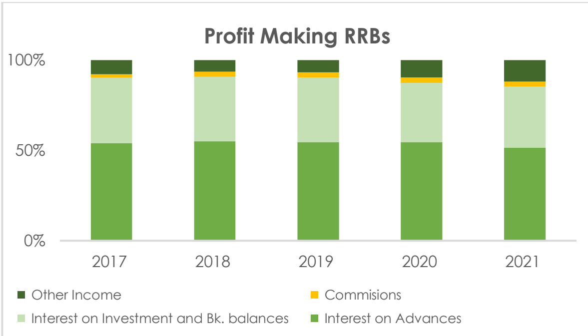


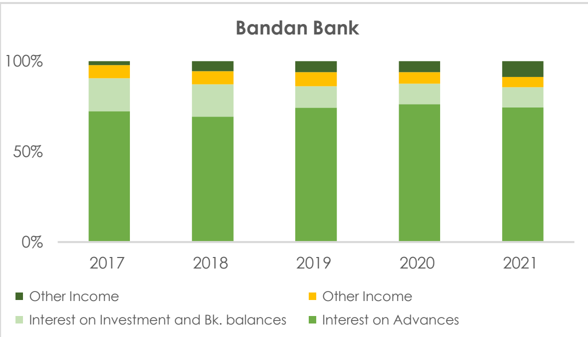


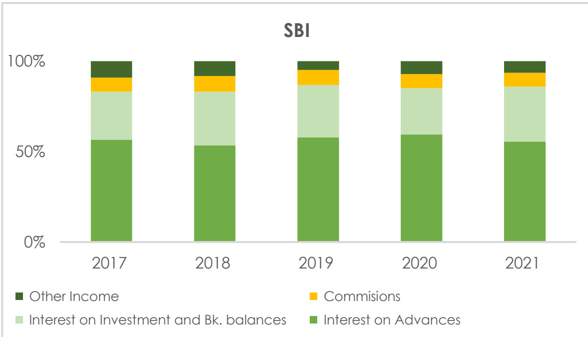
B. Income from Commissions

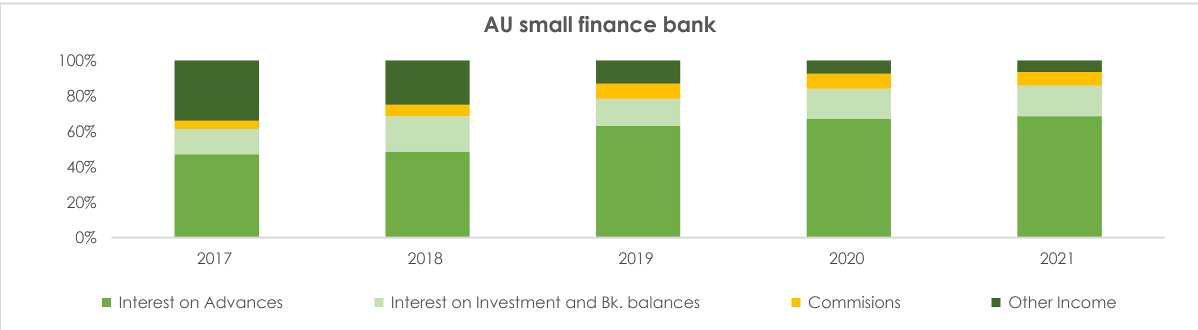
- Average commission income for loss making RRBs stands at ~1.9% in the last 5 years, whereas that for profit making RRBs stands at 2.7%. This is much lower compared to sponsor banks such as SBI [average 8.0%]. [1]







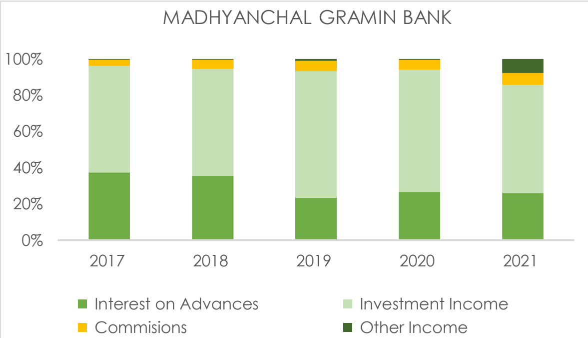


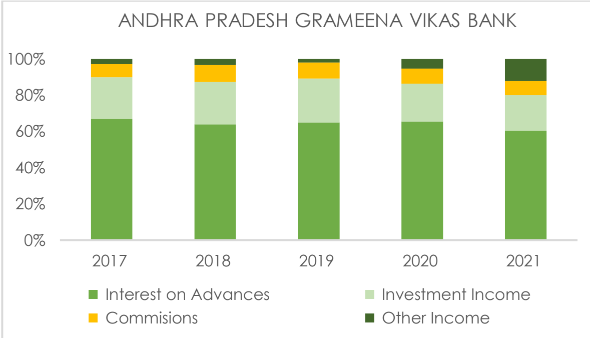


[1] Commission income is derived from other products such as insurance and mutual funds.

Loss making vs Profit making RRB under same sponsor bank –

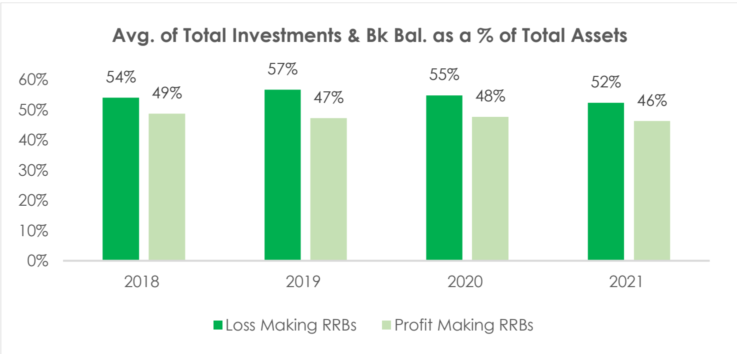
When comparing a loss making RRB [Madhyanchal Gramin Bank] and profit making RRB [Andhra Pradesh Gramin Vikas Bank], we observe that average commissions is lower for the formar [~5.3%] vs the latter [~8.4%]. Other loss making RRBs under SBI, especially those in the north-eastern part of the country, have an average of 1-3% commission income.

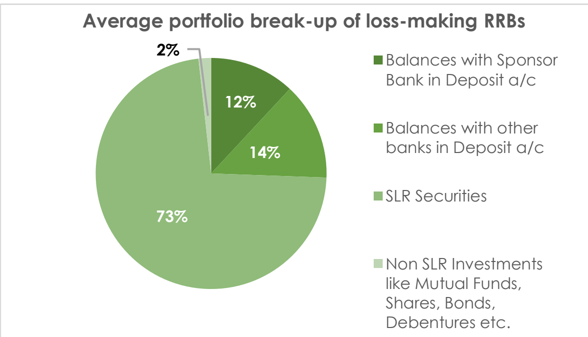


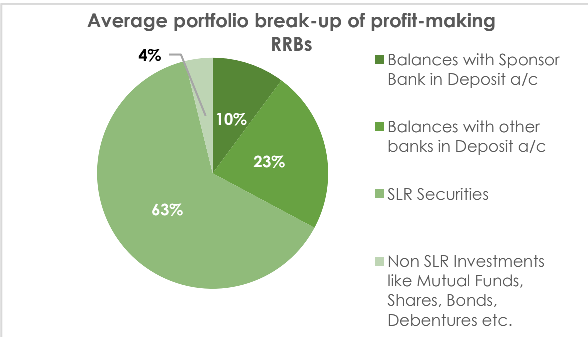


Investment income is higher for loss making RRBs compared to profit making RRBs. These could to be attributed to two reasons –

- A larger volume of assets is parked as investments and bank balances
  - It was observed that on an average, loss making RRBs are parking more assets in investments and bank balances [about 600 to 800 basis points higher]
- The mix of sources where investments and bank balances are parked are different
  - It was observed that profit making RRBs have parked 900 basis points more funds under balances as deposits with other banks comapred to loss making banks



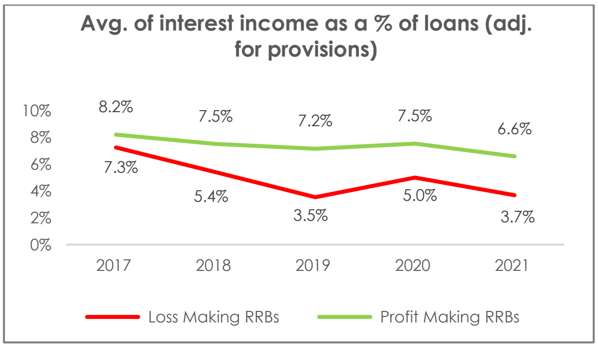


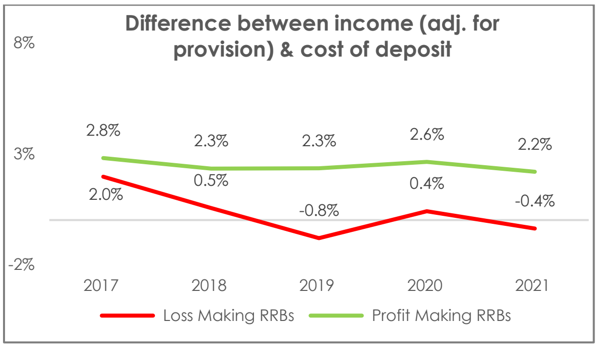


Income from commissions as a % of total income for RRBs is low compared to banks such as SBI, Bandhan Bank, AU SFB. More RRBs need to incorporate and promote products such as insurance and mutual funds which can rein in the commissions for the banks.

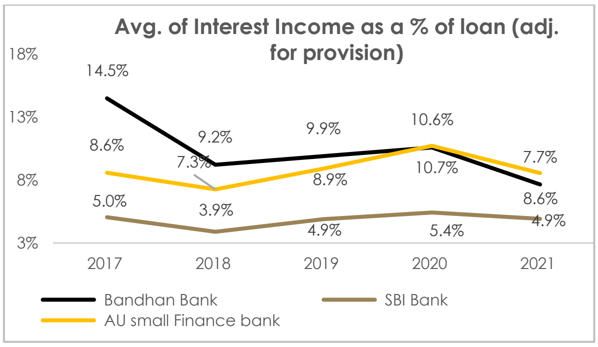
C. <u>Revenue when adjusted for provisions</u>

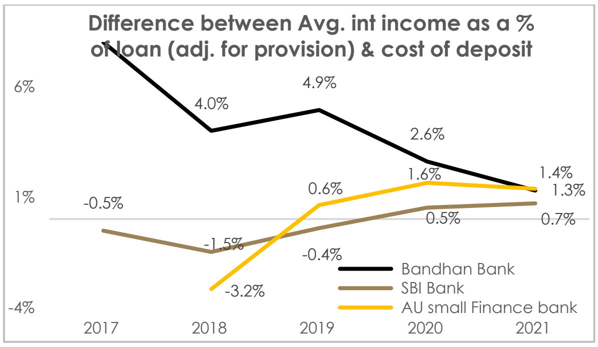
- Provisions and contingencies are created by banks to cover diminution in the value of asset based on record of recovery of loans. When the RRBs interest income from loan is adjusted with provisions for that same year and cost of deposit is subtracted, we observed that loss making RRBs are actually making a loss on each rupee of loan disbursed
- The margin after adjusting for provision is negative (-0.4%) for loss making RRBs, implying that these RRBs are losing on their core lending activity



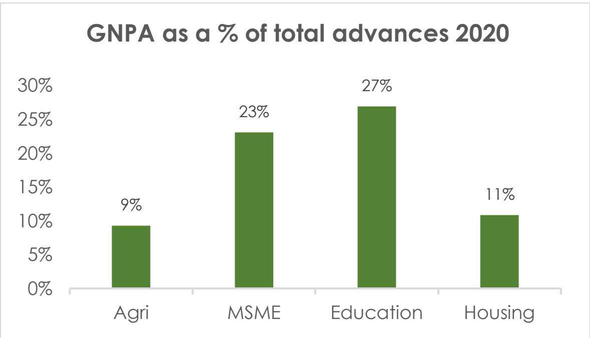


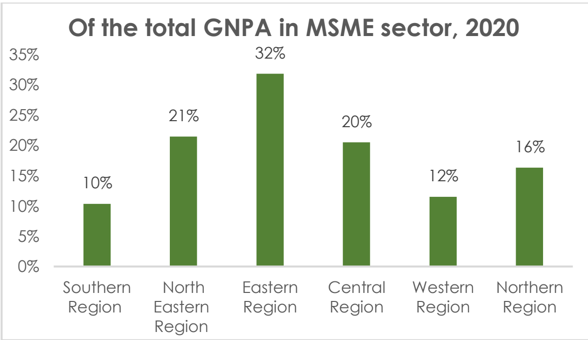
Benchmarks





High NPAs and weaker collections have resulted in lesser net revenue after provisions, thereby deterring loss making RRBs from disbursing loans further.



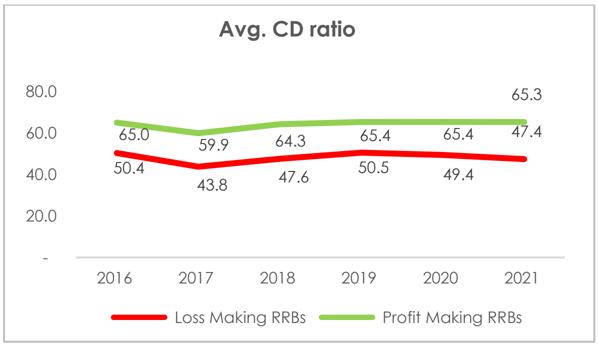


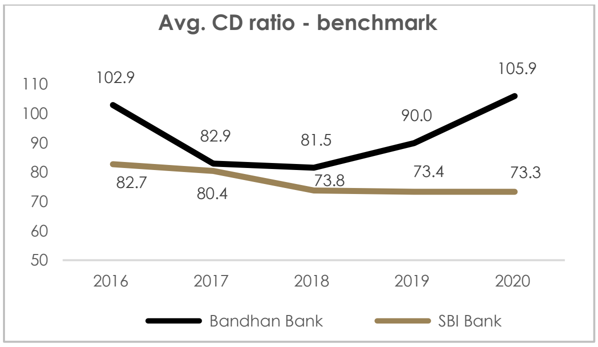
The average Gross Net Performing Assets [GNPA] for loss making RRBs has been ~27% in MSME in 2020 (of the total advances given by loss making RRBs in 2020), and for profit making RRBs has been ~13% in MSME in 2020 (of the total advances given by profit making in 2020). MSME includes lending under govt. schemes like PMMY and Mudra loans which might be contributing towards the higher NPA. Average GNPA in MSME sector is the highest in eastern and north-eastern region, and lowest in the southern and western regions

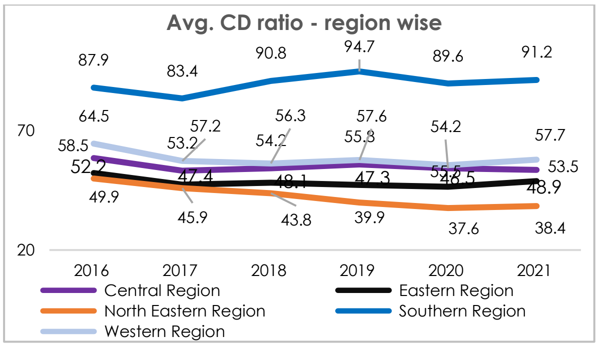
D. <u>Credit-Deposit Ratio</u>

Unprofitable lending operations of loss making RRBs have discouraged these RRBs to disburse loans. Majority of these RRBs are located in the eastern and north-eastern region.

The average credit-deposit ratio for RRBs has been lower than its SFB peers like Bandhan bank and PSU's such as SBI. Unprofitable operations for loss making RRBs such as Mandhyanchal GB, Dakshin Bihar GB etc. has deterred these RRBs to lend at par with its peers, resulting in lower CD ratios. Profit making RRBs like Karnataka VGB and Tamil Nadu GB have been able to keep CD ratios at par with peers. Gross NPA is also higher for loss making, reinforcing that such RRBs are also able to recover lesser on per rupee given out compared to profit making RRBs.







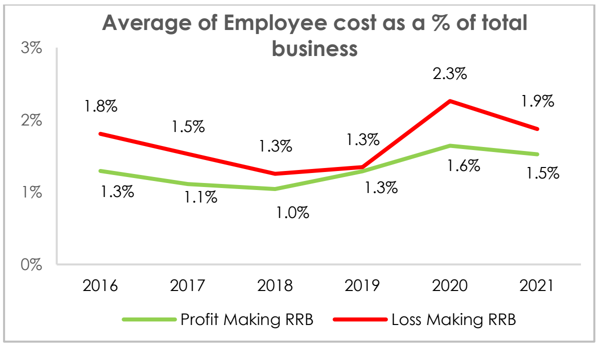
Name of the bank	Avg. CD Ratio (2016-2021
Loss Making	
Madhyanchal Gramin bank	35.4
Madhya Pradesh Gramin bank	68.2
Uttar Bihar Gramin bank	54.0
Odisha Gramya bank	44.8
Dakshin Bihar Gramin bank	51.2
Utkal Grameen bank	49.4
Assam Gramin Vikash bank	45.2
Bangiya Grameen Vikash Bank	42.2
Profit Making	
Karnataka Vikas Grameena bank	76.7
Tamil Nadu Grama bank	95.6
Andhra Pradesh Grameena Vikas Bank	101.70

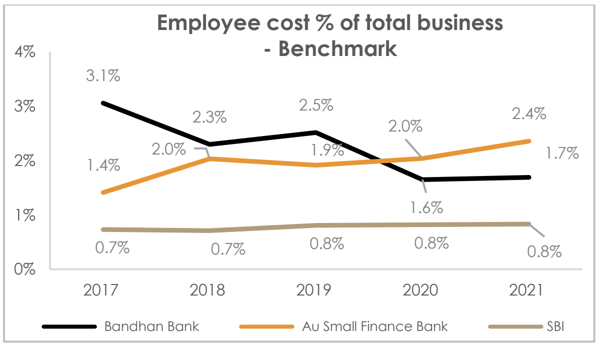
E. <u>Expense Analysis</u>

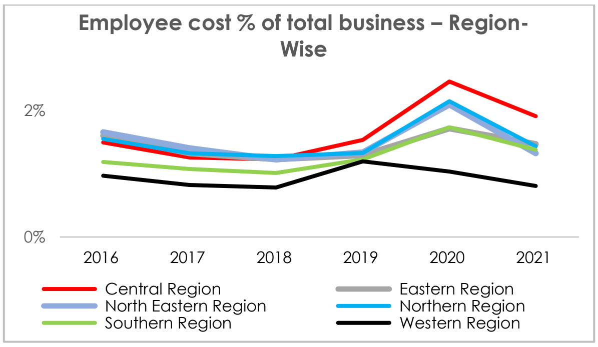
The various expense heads such as employee cost and other expenses were examined. These costs were taken as a % of total business and as a % of revenue..

a. *Employee Costs:*

- The average of employee cost as a % of total business for RRBs was estimated to be at par with peers on conducting a comparative analysis against SFBs and Public Sector Undertakings (PSU's).
- The loss-making banks exceed profit making RRBs in employee cost as a percentage of total business by 40 basis points
- Based on the regional analysis, the central and northern regions had a higher employee cost as a percentage of total business.



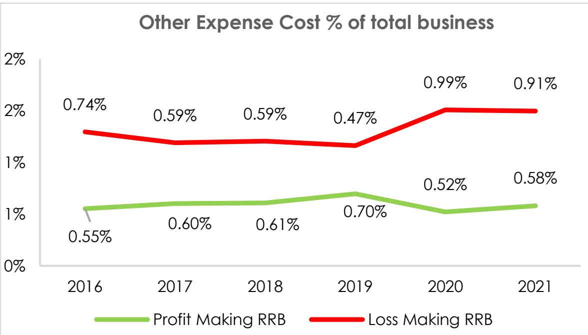


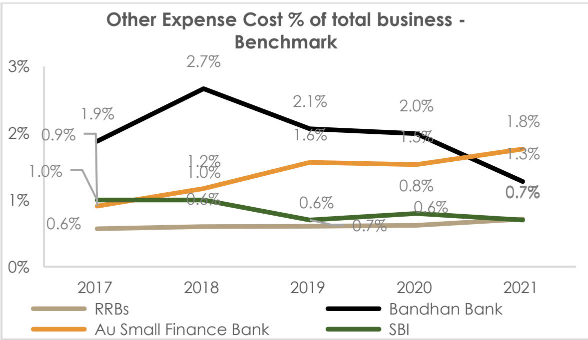


b. Other Expenses[2]

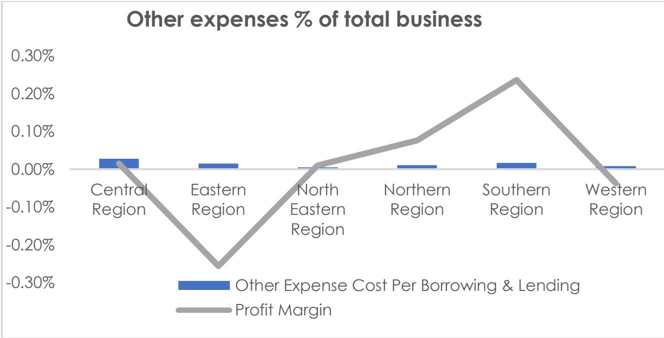
- The eastern and north-eastern regions had the worst performance in terms of profitability; however, the southern region has performed the best.
- The other expense as percentage of total business is higher for loss making RRBs compared to profit making RRBs.
- When benchmarked against SFBs, the other expenses are lower while at par with PSU's like SBI.
- RRBs in the central region have a higher other expense as a percentage of total lending compared to all other regions.

Additional pension liabilities of ₹27,500 crores emerged after the implementation of the revised pension scheme. RRB's are allowed to amortize this liability over a period of 5 years from FY18-19 to FY22-23, until which it will adversely affect their balance sheets.



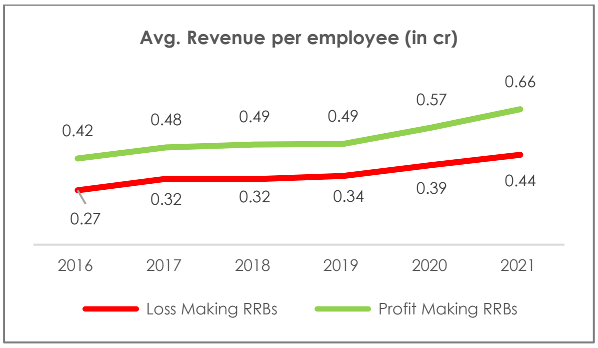


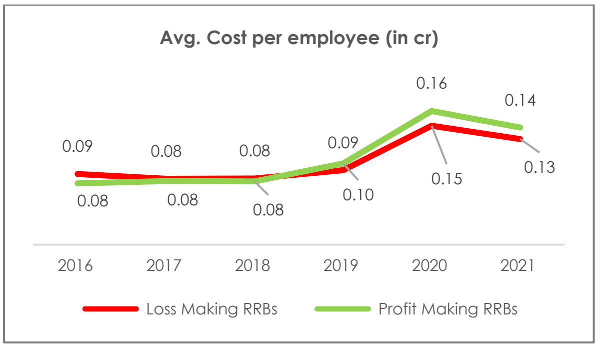
2 [comprising of rent, repairs and maintenance, insurance, etc.]

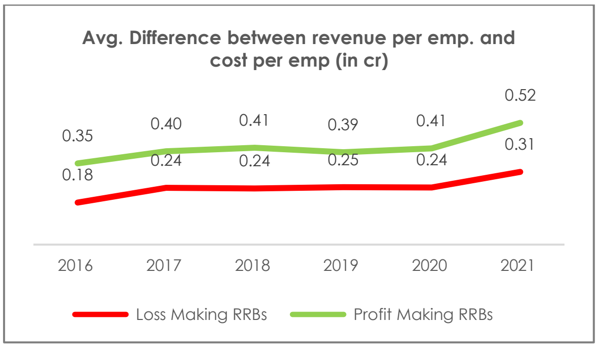


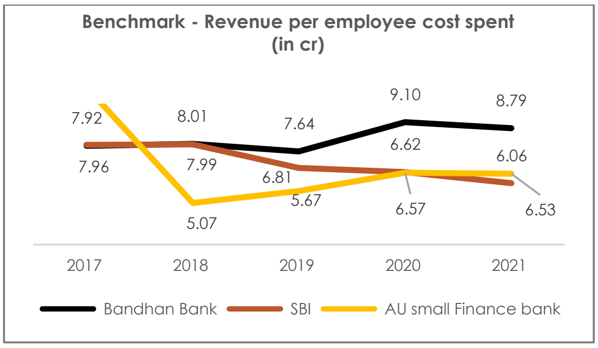
F. Revenue and Cost Per Employee:

- While the employee cost model for both profit making and loss making RRBs seems similar, revenue per employee largely differs.
- Profit making RRBs are earning more per employee compared to loss making RRBs
- When benchmarked against SFB and PSBs, loss making RRBs are earning much less revenue per cost of employee, while profit making RRBs are at par with peers.









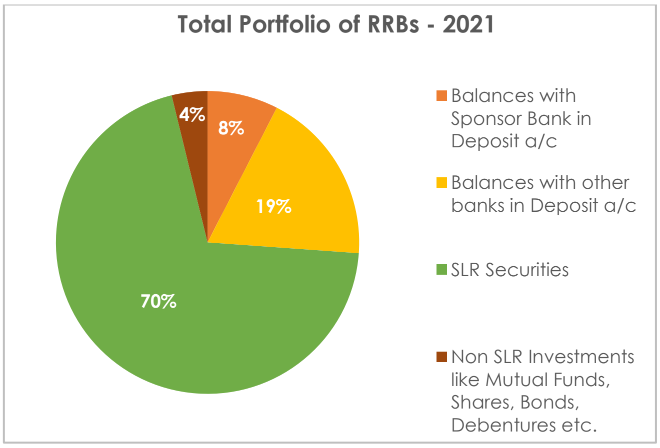
There is a need for each employee to generate more revenue as the problem lies with lower productivity and not the cost structure. There is a significant difference in the branch and employee productivity between profit making and loss making RRBs

G. Investment portfolio analysis

70% of the total investment portfolio is under SLR securities, followed by 27% as balances or deposits with sponsor banks and other banks. SLR securities consist of central and state govt. bonds, gold or cash. Only 4% of the investment portfolio is invested in non-SLR securities such as mutual funds, shares etc.

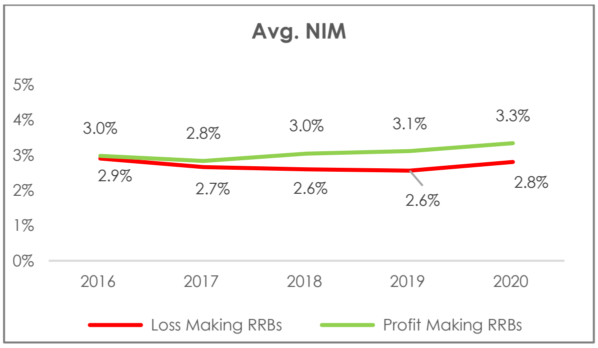
SLR investments are relatively risk free and more liquid, however, they may yield less compared to non-SLR investments depending on the sector and industry of the non-SLR investment.

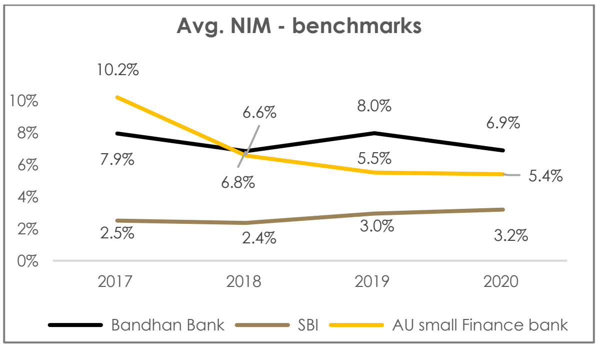
The eastern and western regions have ~70% of their portfolio invested in SLR securities, whereas the Southern and north-eastern regions have ~58% invested in SLR securities. Non-SLR securities form a very small portion of the RRBs portfolio, and increasing the scope of investment in these instruments can yield more 'other income'.



H. <u>Net Interest Margin</u>

Net Interest margin for RRBs is in the range of ~3%, almost 2-3% lower compared than SFBs, but at par with PSBs like SBI. Interest rates for loans are decided by the governing board of each RRB, and rates are fixed keeping in mind the RRBs mandate to service the rural poor.





<u>Deep-diving into loss-making banks</u>

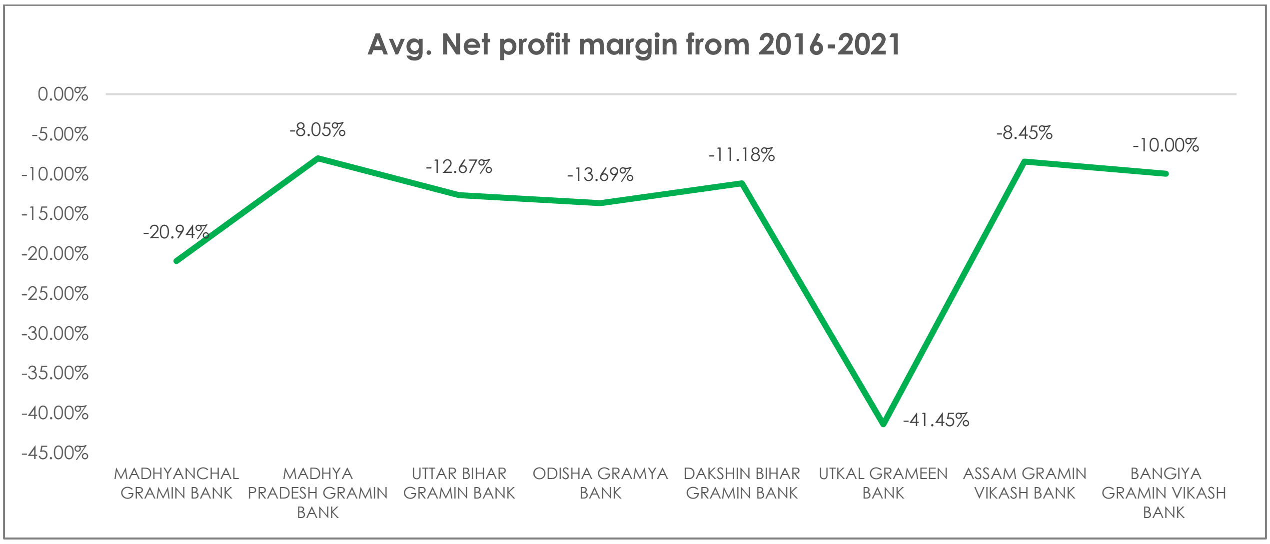
One set of banks have been chronically performing poorly, accounting for almost 81.4% of the RRBs losses in 2021. The analysis has been done for 9 banks only since these have for the most amount of losses in 2021.

Sl. No	Name of Bank	Contribution to overall loss in 2020	Contribution to overall loss in 2021	Major reasons for Loss identified
1.	Bangiya Gramin Vikash bank	10.5%	-	- High employee costs -> ~48% of total revenue in 2020 and 29% in 2021. Overall Avg. Cost/ Emp. was ₹0.16cr in 2020 & 0.15cr in 2021 for RRBs, and for BGVB it was double at ₹0.27cr in 2020 and ₹0.21cr in 2021 - Higher NPAs ~17.7% of advances compared to RRBs average at 11% in '20 and 21.7% in 2021 compared to RRBs average of 11.5%
2.	Uttar Bihar Gramin bank	9.4%	22.2%	- High employee costs ~49% of total revenue - Very high GNPA at 22.1% in 2020 and 30.6% in 2021
3.	Odisha Gramya bank	9.1%	11.3%	- High provisions for GNPA, with net revenue after provisions falling to -3.1% in 2020 and 0.1% in 2021

Sl. No	Name of Bank	Contribution to overall loss in 2020	Contribution to overall loss in 2021	Major reasons for Loss identified
4.	Madhya Pradesh Gramin bank	8.7%	7.3%	- High employee costs ~48% of total revenue in 2020, which fell to 18% in 2021 - High GNPA at 20.4% in 2020 and 18.1% in 2021
5.	Madhyanchal Gramin bank	8.6%	4.7%	- Extremely high GNPA's at 32.2% in 2020 and 26.5% in 2021
6.	Vidharbha Konkan Gramin Bank	7.7%	19.1%	- Employee wages exceeded total profit in by 8% in 2020 and 2% in 2021
7.	Dakshin Bihar Gramin bank	5.0%	0.9%	- Very high GNPAs of 26% in 2020 and 28.2% in 2021
8.	Assam Gramin Vikash bank	4.3%	6.1%	- Very high GNPAs of 37% in 2020 and 33.5% in 2021
9.	Utkal Grameen bank	3.2%	22.0%	- Very high GNPAs of 28% in 2020 and 29.6% in 2021
	Total	**66.5%**	**81.4%**	

Other banks with higher negative profit margins only in 2020

1	Karnataka Vikas Grameena Bank	13.8%	Avg. net profit -2.5% from 2016-2020 (pulled down due to losses in 2020, 2016-2019 were in profits)
2	Baroda UP bank	9.7%	Avg. net profit 1.5% from 2016-2020



Regional rural banks in the north, east and north-east have been chronically performing bad, with net profit margins in the negative for majority of the last 5 years (2016-2021). These banks include –

- Madhya Pradesh Gramin Bank – Madhya Pradesh
- Madhyanchal Gramin Bank - Madhya Pradesh
- Uttar Bihar Gramin Bank - Bihar
- Odisha Gramya Bank - Odisha
- Dakshin Bihar Gramin bank - Bihar
- Utkal Grameen Bank - Odisha
- Assam Gramin Vikash Bank – Assam
- Vidharba Konkan Gramin Bank – Maharashtra

Chapter 4 : Hypothesis drawn from deliberations

Lower Lending Income

- **Interest income before provisions are much less compared to SFBs.** Average interest income as a % of loans disbursed stands at 8.8% for profit making RRBs and 7.7% for loss-making RRBs before provisions, which is much less compared to SFBs at ~11% - 13%.
- RRBs need to increase loan product diversification and incorporate products with higher interest rates to increase their lending margins.

Less spread after provisions

- **RRBs are not making enough margins from lending.** Average margin from lending comes to - 0.4% for loss making RRBs after provisions, which is much less compared to SFBs at ~1.4%. One of the primary issue is high NPAs, which has reduced the risk-taking ability of RRBs and are keeping more capital as investments.
- RRBs need to improve their loan recovery processes by deploying technology, strengthening policy initiatives, and adopting best practices

Commissions & Other Income

- **Commission income is less for RRBs in comparison to SFBs.** Commission as a % of revenue for RRBs is around 2%-3%, whereas it stands at 7-8% of for RRBs. Commissions originate from products like insurance and other banking services.
- RRBs need to increase ancillary products and offer customers a wider range of services under one roof, which is both technology driven and cost efficient

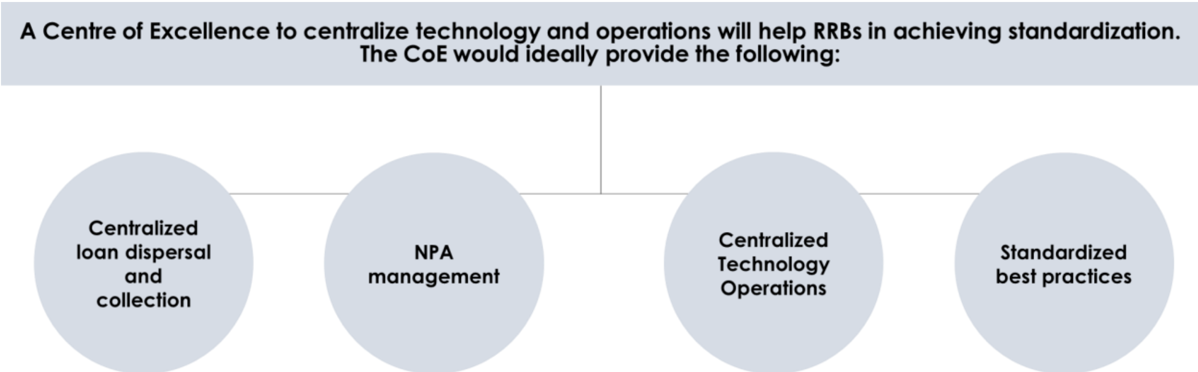
Low Productivity

- **Cost of operations for RRBs has been high due to inherent inefficiencies**, and cost of management exceeded NIM in 2020. Average employee cost as a % of revenue stood at ~30%-35% for RRBs, but stands at 15% - 17% for SFBs.
- RRBs need to decrease costs by adopting technology for various processes that are currently done manually such as onboarding, funds transfer, loan sanction etc.

Chapter 5 Recommendations and leveraging the existing ecosystem

Centre of Excellence

RRBs can establish a centre of excellence (CoE) to centralize technology and operations to achieve standardization. The CoE would be at sponsor bank level and ideally provide the following –



- **Centralized Loan Processing** will enable sponsor banks to standardize sanction process and reduce costing for each RRB. NABARD can support sponsor banks to organize a centralized loan processing and sanction unit which will enable all the information to flow via a single source
- **NPA Management:** NABARD can help identify potential EWS (early warning system) partnerships and processes for NPA management. Sponsor banks will implement the same for their RRBs.
- **Technology:** NABARD can create a standard operating procedure for tech partnerships and setting up of APIs NABARD can help with centralized technology procurement for all RRBs to improve uniformity Centralized outsource tech activities such as onboarding etc. for a more efficient operation
- **Best Practices:** White papers, reports and processes on best practices can be created by NABARD and implemented by sponsor banks

A. Increasing Revenue, primarily for loss making RRBs

The below recommendations have been divided into those under Operations/ Process, Policy and Technology.

Operational

Kirana Shop Integration

RRBs are currently restricted by their manual operations and limited customer reach. While RRBs are the main banking source for many rural areas, the banks need to increase ease of access and touchpoints.

Case Study: Ujjivan SFB Money Mitra

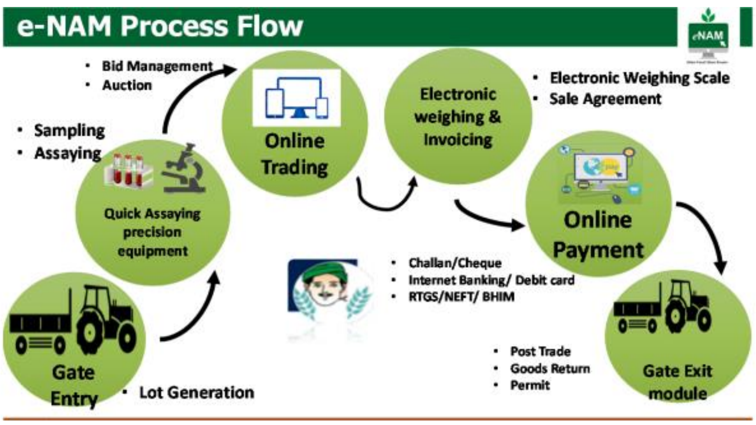
Ujjivan SFB launched a new channel called Money Mitra – a solution for providing neighborhood banking services to customers staying away from the branch
The service facilitates entrepreneurs running local businesses like kirana / medical stores or Insurance agencies to offer retail banking solutions to Ujjivan SFB customers exclusively or insurance agencies to offer retail banking solutions. In these outlets, Ujjivan SFB customers can make a deposit, withdraw money, pay Loan EMI and perform fund transfer without having to travel long distances to branch

RRB solutions
NABARD should create a process/ white paper (CoE) on how kirana stores can be leveraged and share it with RRBs boards: o Provide smaller loans and working capital from these locations o Train the kirana shop employees on using the various platforms and accept rupay cards/ BHIM as modes of payment o Geotagg various transaction points to track payments and payment behavior

e-Mandis

eMandis are platforms for farmers to engage on and sell their produce. Most of the process, from fixing the price to payments, is online.

Currently, e-National Agricultural Market (e-NAM) exists which provides a platform for farmers and traders to deal with each other. RRBs can help be the central point of payments for when these stakeholders are transacting on the platform.



RRB Solution
NABARD can conduct a survey on the platform to understand farmer needs and have them delivered via RRBs, such as: o RRBs can enable payments at e-mandis from their bank accounts, helping farmers conduct business using RRBs accounts as base o Offer loan/credit at the time of auction and bid management

Policy

Lending and deposit rates are decided by the boards of individual RRBs. Incorporating higher interest rate loan products and benchmarking against interest rates of regional SFBs will help RRBs to improve revenue and sell at par with other banks.

Higher interest loan products include housing loans, personal loans etc. RBI enhanced the housing loan limits for eligibility under priority sector lending (PSL) for individuals up to ₹35 lakh in metropolitan centres (with population of ten lakh and above) and ₹25 lakh in other centres, provided the overall cost of the dwelling unit in the metropolitan centres and at other centres does not exceed ₹45 lakh and ₹30 lakh. Housing loans are asset backed, making it safer for the RRBs. Regional Rural Banks under the State Bank of India have heavily forayed into housing loans and total portfolio under housing loans for SBI amounts to 11%, and NPA for banks under SBI such as Jharkhand RGB and Chhattisgarh RGB stood at ~3-3.5% for housing loans.

The below table compares the interest rates of housing loan of profit making vs loss making banks. While there does not exist much difference in the rates, loss-making banks may not be actively promoting housing, vehicle etc. type of products within their areas.

	Bank Name	Housing Loan Rate / pa	Loan Amount
Profit making RRBs	Karnataka Gramin bank	7.5% onwards	
	Telangana Grameena Bank	7.75% - 7.95%	Upto ₹35 lakhs and above ₹35 lakhs
Loss making RRBs	Odishya Gramya Bank	11% to 11.75%	
	Chhattisgarh Gramya Bank	7% - 7.8%	
	Uttar Bihar Grameen Bank	8.3%	
	Assam Gramin Vikash Bank	7.95%	

RRB Solution

- Each RRB board, under the guidance of NABARD can conduct a survey in their region to understand the needs of such higher interest products and accordingly incorporate it into their portfolio
- While many loss-making banks such as Uttar Bihar GB and Bangiya GVB offer products like personal loan, vehicle loans etc., they might not be getting promoted as much as other products, as is evident from the actual % lending of the RRBs portfolio
- Each RRB board, under the guidance of NABARD can conduct a survey in their regions to understand the needs of such higher interest products and accordingly incorporate it into their portfolio

Technology

Technology plays critical part in improving banking operations. It facilitates remote and branch-less banking and improves access. A few RRBs have already adopted models such as deploying micro-ATMs, cashless disbursal of loans and collection mechanism, partnering with fintechs and agri-techs to improve the bank's services.

Case Study: Utkarsh SFB – Micro-ATMs

To provide easy access to the rural and remote customers, Utkarsh Small Finance Bank started deploying micro-ATMs across micro banking branches as a pilot project in remote areas. Micro ATMs provide basic banking facilities, such as cash deposit, cash withdrawal and fund transfer, among others. The Bank has scaled to 107 micro-ATMs across its micro banking branches in FY 2020-21. Further intends to scale up the micro-ATM network across all the micro banking branches.

Setting up of micro-ATM units either via card-method or biometric method for easier cash deposit and dispersal will help rural customers to access the bank's services faster and at various times during the day. Micro ATMs are instrumental in facilitating cash withdrawals (especially during the pandemic), especially for withdrawal of the government's disbursement of ₹1.75 lakh crore into Jan Dhan accounts of workers, labourers, and farmers, among others, who were out of work and needed cash.

RRB Solution

- NABARD, via the CoE, can set up a committee to advice RRBs on potential fintech partnerships
    - The committee can look at various rural fintechs who have considerable experience in the field and advice sponsor banks and/or RRBs to partner with them for specific solutions
    - Pilots can be conducted to test the efficacy of the solution
- NABARD may also write a white paper with best practices such as:
    - Setting up of micro-ATM units either via card-method or biometric method for easier cash deposit and dispersal.

Micro-ATM Partner

Sarvatra TECHNOLOGIES | Aceware | RapiPay Simple hai!

Case Study: Cashless disbursal of loans

- *Utkarsh SFB launched cashless disbursements of microfinance loans. The bank disbursed loans via NEFT/ RTGS, making it easier for customers to receive loans. Once loan formalities were over, they converted microfinance branches to banking outlets.*
- *Fincare SFB launched the '2-hour loan sanction' in 14 states and UTs and 203 districts. Paperless origination using a tab through Aadhaar-based e-KYC with safety and insurance for gold. One-time repayment of principal and interest at end of tenure was offered as well. The Bank experienced two - fold increase in AUM in the 3rd year of operations and 5,739 new customers added; disbursements stood at ₹531.06 Crore in FY20.*
- *A recent pilot by MFIN, funded by HSBC India on digital loan repayment showed the higher success of loan collection via methods such as Aadhar based payments, debit card payments and UPI systems. Digital loan repayment removes the hassle of carrying cash and makes collection a more efficient process for the RRBs.*

RRB Solution

- NABARD, via the CoE or a shared services model can enable cashless dispersal and collection of loans
- NABARD should help RRBs analyze digital loan collection mechanisms such as **Aadhar-based payments and UPI** where the rural population can easily repay loan without having to carry cash
- NABARD can conduct awareness camps to educate the population in their respective regions on the easier repayment methods and how to use them
- NABARD can also help RRBs set up a **centralized solution as a service model or a revenue sharing model with potential tech partners**

Fintech Partners

B. Reducing net performing assets [NPA's] and increasing margins

Policy and Process-based

- Andhra Pradesh Grameena Vikas Bank was successful in dropping their bad loans by deploying the SARFAESI act. Awareness camps to encourage prompt repayment and usage of Lok Adalats have helped them reduce their NPA %. Policy changes like strongly deploying SARFAESI act and improving awareness among borrowers on timely repayment can improve recovery.
- Sponsor bank SBI successfully deployed Asset Management Hubs (AMH) - a central credit processing system for their 14 RRBs which helped them keep their NPAs in check
- Loan repayment via UPI and Aadhar based payments reduces cash management for customers and enables faster and easier loan repayments

RRB Solution

- Policy changes like strongly deploying SARFAESI act and improving awareness among borrowers on timely repayment

Technology

- Early warning systems have been deployed my multiple microfinance institutions [MFIs] and SFBs to reduce loan fraud and inform the bank agents when a loan can be a potential default.
- MFI's have implemented alternate data scoring technology, and can perform risk assessment on customers on broader parameters
- Multiple SFBs and MFIs have been submitting their data to CIBIL, Equifax etc. which enables them to get a big picture on the existing leverage of the borrower and get real-time analysis on credit worthiness

RRB Solution

- Sponsor banks, using the CoE model, can implement centralized NPA management systems for RRBs
- The CoE can recommend potential partnerships with fintechs to implement EWS
- Pilot projects with eastern and north-eastern banks will help analyze the efficacy of the solution

Potential Fintech Partners

sesame inspire innovate A Speridian Company

Verisk Financial | Fintellix

C. <u>Increasing commission income</u>

As highlighted above, RRB have much lower commission income compared to SFBs and other peer banks. RRBs need to adopt and offer products which have the potential to increase commission income such as insurance and mutual funds.

Case Study: Utkarsh SFB on generating fee income

- *Utkarsh Small Finance Banks focused on diversifying the fee and non-interest-based revenues, by generating fee income from own products and cross-selling third-party products such as life insurance and general insurance products, mutual funds, Atal Pension Yojana, National Pension Scheme and micro-insurance.*
- *The bank also focused increasingly on bancassurance channels to distribute various types of third-party insurance products to existing customers. As on 31st March 2021, the Bank had four bancassurance relationships with insurance companies to offer life insurance, general insurance and health insurance products.*
- *On the liability side, the Bank consistently engaged with customers in urban and metropolitan locations to promote wealth management services such as mutual fund investments and strengthen distribution of such products.*
- *The fee remuneration increased 34.7% from ₹5.91crores in 2020 to ₹7.96 crores in 2021*

RRB Solution

- NABARD can reach out to mutual fund houses to help RRBs tie-up with them. Distributing mutual fund products will enable RRBs to earn commission income and offer customers a better avenue to park their funds
- RRBs can tie up with fintechs such as FIA global (FIA global offers a quant and AI based advisory and distribution mutual funds platform for the masses called FIADhan. Targeting low-income households, it recommends personalized goal-based investment solutions based on the risk profile and real-life goals of the customer)
- Currently, sponsor banks are catering to Sukanya Samriddhi Yojana (SSY) accounts. RRBs should try to get authorization to cater to the SSY accounts to increase customer base and cross selling opportunities

Insurance Partners

D. Improving cost efficiency and productivity

Technology

Case Studies: SFB's on paperless onboarding

- *AU SFB tied up with India Stack for developing paperless onboarding across all their products. They are facilitating this via Aadhar authentication (Biometric as well as OTP) for all liability customers for their Savings Account, Current Account (Companies as well as partnerships) and Fixed Deposits*
- *A large Indian SFB has implemented a technology solution in partnership with a fintech company through which they have enabled Aadhaar-linked KYC, video ID verification, verification of e-documents via Digi Locker and uses AI/ML technologies for preventing fraud, customer authentication and automating the customer onboarding process.*
- *RRBs such as Andhra Pradesh GVB and Telangana Gramin Bank have successfully implemented video and e-KYC*

RRB Solution

- Sponsor banks, along with NABARD, can push to make digital KYC the prime way of onboarding a customer
- Tie-ups with Fintechs and use their technology that provides-
  - Provide facial verification
  - Palm and fingerprint verification
  - Multiple ID matching
  - Ability to perform identity verification against over more than 100 types of various national IDs
- Development of CoE (highlighted at the beginning) will help decrease overall costs

NABARD Research Study Series

S. No.	Title of Study	Agency
1.	Whither Graduation of SHG Members? An exploration in Karnataka and Odisha	National Bank for Agriculture and Rural Development (NABARD)
2.	Study on Strengthening the value chain of TDF Wadi Projects in Andhra Pradesh	Administrative Staff College of India, Hyderabad
3.	Developing a roadmap of Social Enterprise Ecosystem- as a precursor for a viable Social Stock Exchange in India	Grassroots Research and Advocacy Movement (GRAAM)
4.	Sustainability of Old Self Help Groups in Telangana	Mahila Abhivrudhi Society, Telangana
5.	Impact Assessment of RuPay Card on Weaker and Marginalized Sections in Bihar and Uttar Pradesh	Rambhau Mhalgi Prabodhini, Mumbai
6.	Getting More from Less: Story of India's Shrinking Water Resources	Indian Council for Research on International Economic Relations (ICRIER)
7.	Identifying the Most Remunerative Crop-Combinations Regions in Haryana: A Spatial-Temporal Analysis	Centre for Research in Rural and Industrial Development (CRRID)
8.	Climate Change Impact, Adaption and mitigation: Gender perspective in Indian Context	ICAR- National Institute of Agricultural Economics and Policy Research (ICAR-NIAP)
9.	Achieving Nutritional Security in India: Vision 2030	Indian Council for Research on International Economic Relations (ICRIER)
10.	Development of Iron Enriched Spent Hen Meat Products for Boosting Layer Industry and Entrepreneurship	Assam Agriculture University, Guwahati
11.	Farmer Producer Organizations and Agri-Marketing: Experiences in Selected States, Relevance and their Performance in Punjab	Centre for Research in Rural and Industrial Development (CRRID)
12.	A Collaborative Study on Agriculture Marketing Infrastructure in Kerala	Centre for Agroecology and Public Health, Department of Economics, University of Kerala
13.	Construction of State-wise Rural Infrastructure Indices (RIIs) and A Scheme of Rural Infrastructure Development Fund (RIDF) Allocation	EPWRF, Mumbai
14.	Action Research on Sustainable Agricultural System	XIMB
15.	Study on Efficacy of Micro-Irrigation System in Drought Prone Parts of Haryana	Society for Promotion and Conservation of Environment (SPACE), Chandigarh
16.	Study on Improving Livelihood Opportunities for Jogini Women in Anantapur District of Andhra Pradesh	Administrative Staff College of India, Hyderabad
17.	A Study of the Agrarian Structure and Transformation of the Institutional Framework of Agriculture Sector Using Data from Agricultural Censuses	NABARD and EPWRF, Mumbai

18.	Stree Nidhi: A Digital Innovation in the Indian Micro-Finance Sector	National Institute of Rural Development and Panchayati Raj (NIRDPR), Hyderabad
19.	Sustainable Development Goals for Rural Maharashtra: Achievements and Constraints	Symbiosis School of Economics, Pune
19A.	Agriculture Value Chains in India: Ensuring Competitiveness, Inclusiveness, Sustainability, Scalability and Improved Finance	Indian Council for Research on International Economic Relations (ICRIER)
20	Mid-Term Evaluation Report of Climate Change Adaptation Projects funded from UNFCC Adaptation Fund	Institute of Economic Growth, Delhi
21	Study on Utilization of Banana Pseudostem for Textiles	Maharaja Sayajirao University of Baroda
22	Farm Loan Waivers in India: Assessing Impact and the Road Ahead	Bharat Krishak Samaj, New Delhi
23	Rural Distress: Causes, Consequences and Cures (Antifragility)	Initiatives for Development Foundation, Bengaluru
24	Handholding (Capacity Building and Facilitation) of FPOs: Framework to Implementation	Institute of Rural Management, Anand
25	Case Studies of FPOs in India, 2019-21	Xavier Institute of Management, XIM University, Bhubaneswar
26	Cactus Pear (Opuntia ficus indica) as a Source of Fodder in Dry Areas of Rajasthan and Gujarat	BAIF, Pune
27	Coastal Watershed-Based Surface and Subsurface Salinity Mapping and Modelling of Thiruvallur and Kanchipuram districts, Tamil Nadu for sustainable brackish water aquaculture	Central Institute of Brackishwater Aquaculture (CIBA)

नाबार्ड

राष्ट्रीय कृषि और ग्रामीण विकास बैंक, मुंबई

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT