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CHAPTER-II

Genesis and Organisational Pattern of RRBs

2.1 The Genesis:

In the year 1904, as the foundation of the institutional credit structure in rural India were established co-operative credit societies. The co-operative society Act was passed to eradicate indebtedness of rural poor people. However, it was unable to accomplish its objective of credit supply to rural masses to save from village money-lenders and covered remote rural areas etc. These financial institutions could not meet with growing demand for credit. That is why; the Government of India constituted a committee under the chairmanship of Prof. D.R. Gadgil in the year 1944 and investigated the problem of rural indebtedness and credit. The committee disclosed that the rural credit system is beneficial, effective and ought to pay special attention in three ways. They were as follows,

- Short term credit needs so as to enable the farmers to continue with productive activities,
- Medium and long term credit for farm development purpose and
- Situation credit for natural calamities like floods, drought and crops failure.

Further, the committee recommended that short term, long term and medium term credit requirements of agriculturists would be integrated and a single institutional organisation was needed to set up for providing all three forms of credit and
financial essentials for consumption, productivities and any other social purposes on appropriate terms and conditions. The committee noted down that co-operative credit system was the best and would be long lasting solution for the agricultural credit problem.

In the year 1955, according to the recommendations made by All India Rural Credit Survey Committees the State Bank of India was established. Establishment of State Bank of India in 1955, nationalisation of 14 major commercial banks in 1969 and again nationalisation of 7 banks in 1980 made a significant impact on institutional finance to rural areas. After nationalisation, commercial banks expanded their branches to rural areas. However, commercial banks created more problems in lieu of fulfilling the objectives of their establishment. These problems were identified as follows,

- Commercial banks could not supplement co-operative credit societies.
- They mobilised savings from the richer and middle men of the rural community in spite of providing more credit to the agricultural sector.
- Out of total deposits mobilised in rural areas, 60 percent would be disbursed to those areas which could not be done.
- High cost-structure of commercial bank’s branches operating in rural areas.
- Absence of staff with proper approach and training to deal with rural customers and problem of agricultural credit.
The above problems were the major hurdle in their efforts to obtain the social objective of rural financing. In order to bring more progress in the availability of institutional rural finance to rural areas, a more determined endeavour was required to speed up the credit flow of financial institutions particularly to cater the needs of the weaker sections of our country. Keeping this background in view, the Banking Commission was set up by the Government of India in the year 1972 which made a proposal for setting up of a new type of rural banks so that it could bridge the gap left out by the co-operative and commercial banks. The commission noted that there was maximum possible branch expansion that had been tried by the co-operative and commercial banks even though there was a large credit gap in our country. In such context, it proposed the establishment of a new class of rural banks in those areas where the co-operative credit structure was weak. In view of the commission, such rural banks should come in one of three possible ways,

- Conversion of a selected primary agricultural credit society into the rural cooperative bank, or
- By establishing a good primary agricultural credit society as a subsidiary of commercial banks, or
- Setting up a special type of rural bank sponsored by commercial bank and supported by local participation.

The then late Prime Minister of India Smt. Indira Gandhi announced the economic programme in June, 1975 for the rural development of the country. The
aim of this programme was devising alternative agencies to provide institutional credit to landless labourers, rural artisans and small and marginal farmers under the programme to liquidate rural indebtedness of these classes of people. Consequently, the Government of India appointed on 1st July 1975, a working group under the chairmanship of Sri. M. Narasimham to investigate deeply the setting up of a new type of rural banks as subsidiaries of public sector banks to cater to the needy persons of rural areas. The working group submitted its report on 30th July, 1975. The working group observed that the existing institutions could not be able to fill up the regional and functional gap in the rural credit institutional system within a reasonable period of time, reorganisation and restructuring were considered. The working group disclosed that the merits and demerits of commercial banks and co-operative credit societies. The groups pointed out the major problems of commercial banks while financing the credit to rural people. They were,

- their high cost structuring in operating in rural areas, and
- their attitudinal character i.e. limited coverage and inadequate appreciation of rural problems because of not understanding of rural problems and requirements.

Therefore, the working group came to the conclusion that the regional and functional gaps in rural credit could not be filled within a reasonable period even by re-organising or re-structuring the system of co-operative and commercial banks finance. A degree of adaptation and improvisation is called for and the range of institutional alternative widened. Thus, the state sponsored, regionally
based and rural oriented commercial banks have been taken existence in rural India which is popularly known as Regional Rural Banks.

On a pilot basis only five such model banks, instead of immediately making a pattern for reorganisation of existing rural credit institution as a whole, were established for the first time in the country on the eve of 106th Birth Anniversary of Mahatma Gandhi, 2nd October, 1975 was in the states of Uttar Pradesh, Haryana, Rajasthan and West Bengal covering nine districts. Head office of these five RRBs was at Moradabad, Gorakhpur, Bhiwani, Jaipur and Malda. These banks were sponsored by the Syndicate Bank, State Bank of India, Punjab National Bank, United Bank of India respectively. These five RRBs were presented in the following table-2.1.

Table-2.1

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>State</th>
<th>Name of the Banks</th>
<th>Sponsor Banks</th>
<th>Head Office</th>
<th>District Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1975</td>
<td>West Bengal</td>
<td>Gaur Grammeen Bank</td>
<td>United Bank of India</td>
<td>Malda</td>
<td>Malda, West Dinajpur, Murshidabad</td>
</tr>
<tr>
<td>2.</td>
<td>1975</td>
<td>Uttar Pradesh</td>
<td>Gorakhpur Kshetriya Grameen Bank</td>
<td>State Bank of India</td>
<td>Gorakhpur</td>
<td>Gorakhpur, Deoria</td>
</tr>
<tr>
<td>5.</td>
<td>1975</td>
<td>Uttar Pradesh</td>
<td>Prathama Bank</td>
<td>Syndicate Bank</td>
<td>Moradabad</td>
<td>Moradabad</td>
</tr>
</tbody>
</table>

Sources:  
In this way, RRBs came to form the third component of the multi-agency credit system for agricultural and rural development. Later on, the ordinance was replaced by the RRBs Act, 1976. Resultantly amendments to the Banking Regulation Act, 1949 were made and a clause to section 5 was introduced to define the RRB. According to this clause “Regional Rural Bank means a regional rural bank established under section 3 of the Regional Rural Banks Act, 1976”.

In the year 1978, the Dantwala Committee suggested that RRBs should become an integral part of the rural credit structure and priority for setting up RRBs should be given to those districts where Central Co-operative Banks were weak. Hence, more steps were taken to set up more RRBs. As a result by the number of RRBs and their branches has been increasing since inception. There were 196 RRBs operating in 26 states across 518 districts with a network of 14,446 branches as on 31st March, 2004 majority of the branches of RRBs were located at rural areas. The process of consolidation through amalgamation of RRBs is now almost completed, resulting in a decline in the total number of RRBs to 86 as on March 2009 (which includes a new RRB set up in the Union Territory of Pondicherry) and further to 84 as on July 31, 2009. However, after amalgamation, the number of RRBs further reduced to 82 as on 31st March, 2010 but increased number of branches to 15,475.

2.2 Main Features of RRBs:

Regional Rural Banks ordinance was promulgated by the president of India on 26th September 1975, which was later known as RRBs Act on 9th
February 1976. RRBs thus came to form with an added component of the Multi Agency Credit System for Agriculture and Rural Development in India. For this purpose, other objectives of RRBs were to give assistance to Integrated Rural Development Programme (IRDP), to ensure full coverage possibility of target population and to mobilise rural saving etc. The main objectives of RRBs are,

- **Social Justice:**
  
  One of the main objectives of RRBs is social justice. The original objective of the RRBs was to bring progress with social justice to the rural poor who were generally denied and unable to access to financial services from commercial banks.

- **To provide Loans and Advances:**
  
  The main objective of RRBs is to provide loans and advances for productive purposes to marginal farmers, agricultural labourers, rural artisans and small scale entrepreneurs so that the development activities increased in trade, agriculture and other related services even in remotest rural areas. As a result of it, rural people were to wipe out rural indebtedness and improved their socio-economic conditions that were below the poverty line.

- **To fulfill the needy Credit:**
  
  RRBs were set up to fulfill the need of adequate credit in time to the weaker sections of society, rural artisans, landless agricultural labourers, self-employed peoples, small and retail traders to help in production and marketing related activities.
• **To bridge the gap:**

RRBs had created a supplementary channel for flow of credit from the urban to rural sector and to bridge the gap between the banking facilities available in urban and rural areas.\(^2\)

• **Integrated Rural Development:**

RRBs were established to promote integrated rural development. These banks provided productive assets to agricultural labourers, small and marginal farmers and rural artisans etc. They also supported land based activities like irrigation, animal husbandry, small entrepreneurs, services and business sectors. A RRB attempted to integrate input like infrastructure, extension services and credit which constituted a scheme as well as to integrate package activities towards the goal of achieving integrated rural development.

• **To facilitate banking service in remote areas.**

RRBs were the only bank which banking service extended in remotest and unbanked rural areas where there was no banking facility of any kind.

• **To inculcate banking habits:**

RRBs provided inculcate banking habits to rural public. They mobilised idle fund through deposits from the agricultural labourers, rural artisans, small and marginal farmers and small entrepreneurs of rural areas. These funds were disbursed by RRBs to the needy persons for their productive purposes.
• **To promote small entrepreneurs and tiny industries:**

Rural development is impossible by establishing large industries only. Why because raw materials of big industries would have the big problems while running such industries. However, small entrepreneurs and tiny industries based on rural raw materials will be succeeding as there were no problems of raw materials. It was possible only by motivating and inspiring rural artisans, tiny industries and small entrepreneurs to establish cottage, small and tiny industries. The main feature of small industries, cottage industries and tiny industries, goods were usually produced by home members' workers. Highly artistic goods involving individual arts and crafts were also produced by cottage industries. RRBs provided credit facilities for these industries and became a tool for the development of rural areas with total industrialisation.

• **To provide employment opportunities:**

By providing loans and advances, RRBs help to solve unemployment problems of rural poor people. RRBs provided requirement credit to landless labourers, agricultural labourers, small and marginal farmers, rural artisans and small entrepreneurs. In such ways, they created employment opportunities in rural areas. According to M. Narasimham Committee, RRBs should be government-owned, regionally based and rurally oriented. These banks help to improve employment conditions in rural areas.
• To promote the welfare of economically and socially backward people of the rural sector.

• To reduce cost of credit in rural sector.

• To provide information to the rural masses about various banking facilities available and to provide subsidiary services like commercial banks.\(^3\)

The RRBs focused on these objectives and made a concerted effort to take banking facilities to remote areas of India. The rural people were initially apprehensive but with constant and untiring efforts these RRBs became an integral part of the rural scenario.

2.3 Functions of RRBs:

A rural bank was described as “a primary banking institution set-up to serve a compact group of villages generally working as a co-operative bank, or as a subsidiary of a commercial bank”, and its object would be “to provide at one place the special type of credit and banking facilities and related services required by agriculturists and other rural producers”. The main functions of RRBs are highlighted as under,

• To raise and mobilised funds by means of various types of deposits like demand deposit, saving deposit and term deposit etc.

• To open new branches in viable centres for effective deposit mobilisation and disbursement and recovery of credit.

• To provide short-term and medium-term credit for agricultural and other purposes on its own.
• To supervise and inspect the projects to which loans were advanced.
• To implement programmes of the supervised credit tailored to the needs of individual farms.
• To assist borrowers with services.
• To undertake supply of inputs and agricultural and retail equipment of farmers as agent and in appropriate cases equipment loaning.
• To provide assistance in the marketing of agricultural and other products through marketing organisation.
• Discounting and purchasing of bills of exchange and promissory notes.
• Acting as agents of Government or local authorities and
• To help in the over-all development of the villages in its area.

The RRBs are expected to form an integral part of the rural credit structure, along with co-operative and commercial banks multi-agency approach to rural lending. They create a supplementary channel for the flow of credit from the central money market to rural areas through refinance. Their cost of operation is also lower. Establishment and operations costs of RRBs branches were relatively lower as compare with the rural branches of commercial banks.⁴

2.4 Responsibility of the Central Government:

The Central Government having full powers, beginning from the incorporation of a RRB, subscribing share capital of RRBs (50%), two directors have been appointed on the board, notifying various rules and regulations for board meetings, appointment of auditors and fixation of their remuneration,
providing direction to RRBs on policy matters including rural masses interest, amalgamation of RRBs and notification thereof and placing the results of activities of the RRBs in both Houses of Parliament. In exercising powers, the Central Government seeks the expertise and services of NABARD which maintains the database on RRBs too.

2.5 Role of Reserve Bank of India:

RBI is the Central Bank of our country and has performed a wide range of promotional functions to support national economic policy objectives. It is the regulator and supervisor of the financial system of the country. It prescribes broad parameters for backing operation with which the country’s banking and financial system function so that to ensure stability. According to provision of the RRB Act 1976, RBI represents the Government of India (GOI) on the boards of RRBs. It nominates one director to the Board of RRB.

2.6 Role of the concern State Government:

The concern State Government has contributed 15 percent to the share capital of RRB. The State Government has a greater stake in the banks as these banks have played a prominent role in implementing different credit-linked development schemes. The State Governments nominate two directors to the board of RRBs functioning in the state. The State Government expected to help RRBs in form of deposits its plan and non plan funds, in their smooth functioning and facilitate the recovery of loans amounts. Particularly in Manipur state proper security to MRB is very much essential why because due to the deteriorating law
and order problems and undesirable elements. The Manipur Government has not provided proper security to MRB except one branch. Therefore, MRB is facing the problems of law and order problems while performing its normal functions.

2.7 Role taken up by NABARD:

NABARD is not a shareholder of RRBs however; it helps in the Central Government regarding its function relating to RRBs. With the formation of NABARD in July 1982, the affairs of the RRBs are being looked after by this central agency. It nominates one director to the Board of director. It provides policy inputs and represented on the Board of Directors in favour of Government of India. It also gives refinance support to enhance the resource base of RRBs for lending to the desired different sectors as also to increase liquidity position. NABARD has been taking an important role in relation to the human resource development of the RRBs by providing training facility to RRBs officers, conducting Organisation Development Initiatives (ODIs) and exposure visits within the home and abroad of our country. It extends help to the RRBs in all matters pertaining to its operational problems, business development, micro finance and policy thrust etc.

2.8 Responsibility of Sponsor Bank of RRBs:

Each and every regional rural bank is sponsored by a scheduled commercial bank mainly a public sector bank. It is established at the initiative taken by the sponsoring bank in consultation with both the State Government and
the Central Government under the license from RBI. Some selected responsibilities of sponsor bank are as follows,

- The sponsoring bank has to aid and assist the RRB in all respect. It has to subscribe to the share capital of RRBs on mutually agreed terms (35 %) i.e. 8.75 lakhs of each RRB which non-interest is bearing amount.
- On the current account balance of RRB, it pays interest at the rate of 9 percent per annum.
- Increasing initial expenditure for establishment of RRB, its head office and providing for stationery and other items of necessity in the initial stage.
- Deputing staff to the branches of RRBs in the initial period of its operations.
- Identifying its own staff for deputing to act as a chairman for the initial period of functioning of RRBs.
- To arrange for recruitment and training of personnel during the initial functioning of RRBs.
- To recommend the nominees of official and non-official for inclusion on the Board of RRBs i.e. two directors.
- To provide all the operational or administrative support and guidance in its running smoothly and successfully.
- The RBI in consultation with the GOI has also allowed scheduled state co-operative banks to sponsor RRBs.
2.9 Capital Structure of RRBs:

RRBs Act, 1976 lays down that the authorised of each RRB has been fixed at Rs. one crore and the issued capital at a minimum of rupees twenty-five lakhs. The authorised capital may either be reduced or increased by the Central Government after consulting the RBI and the sponsoring bank. However, it shall not be decreased below rupees twenty five lakhs. At present, share capital of RRB is contributed by the Central Government (GOI, NABARD and RBI), the concerned State Government and the Sponsor Bank in proportion of 50:15:35 respectively. The ownership and responsibility of the state government in RRBs needs to be critically reviewed. There is no participation of other institutions and individual in the equity of the RRBs. The Board of Directors of RRBs may after consultation with the stakeholders and with the prior approval with the Government of India, according to time increase the issue capital of the RRBs but the proportion of subscription in the additional capital by the stakeholder will remain unchanged. As the number of RRBs branches were increasing resulting in the raising of costs over the years, the Central Government realised that Rs. 25 lakhs provide a very limited base of share capital to a RRB. The RRBs (Amendment) Act, 1987 has enhanced the authorised capital of RRB to Rs. 5 crores with paid up capital of Rs. 1 (one) crore.

2.10 Management of RRBs:

Management is the life-giving force of any concern. It is no exception to banking concern only. Management knits the business enterprise into an entry,
inspires it and drives it step forward to obtain its objectives. It is concerned with creating the conditions and relationships which come to bring about the full utilisation of all resources of an enterprise. It is very clear that the banks have to pursue sound and healthy banking policy while attempting to achieve social aims and objectives. The RRB is an enterprise form applying the rule of democracy and directly intended to serve both its own customers or borrower members and whole rural community. Hence, the RRBs have to equip themselves with the essential quality of management which will result in sound and healthy banking institution. The affairs and business of each RRB is controlled and managed by a Board of Directors consisting of not less than 9 (nine) members including a chairman and not exceeding fifteen members in aggregate. The chairman of the Board of Directors is appointed by the Central Government for a period of five years. However, the Central Government has the right to terminate the chairman at any time before the expiry of the period by giving him notice of not less than three months in writing or three months salary and allowances in lieu of such notice. On the contrary of this, the chairman also have the right to give up his office at any time by giving notice in writing to the Central Government before the expiry of the period not less than three months. He is eligible for re-appointment after the expiry of the period. The chairman shall devote his whole time to the affairs of the RRB and for this he is entitled to receive salary and allowances, and be governed by such terms and conditions of service as may be determined by Central Government.
Management of branch is the responsibility of branch manager. Field officers and other clerical staff help branch manager. Management chart of RRBs is lying under here,

**Chart-2.1**

**Management of RRBs**

*(Organisational Structure)*

Central Government  \[\overrightarrow{\text{Sponsor Bank}}\]  State Government

\[\overrightarrow{\text{Board of Directors}}\]  \[\overrightarrow{\text{Chairman}}\]  \[\overrightarrow{\text{General Manager}}\]  \[\overrightarrow{\text{Head Office}}\]

Senior Manager (S.M)  S.M.  S.M.  S.M.  S.M.  S.M.

(Time)  (Planning)  (Accounts)  (Loans)  (Personnel and Administration)  (Audit and Inspection)

\[\overrightarrow{\text{Area Manager, Area Officer}}\]
\[\overrightarrow{\text{Branch Manager}}\]
\[\overrightarrow{\text{Field Officers}}\]
\[\overrightarrow{\text{Clerk cum Cashiers}}\]
\[\overrightarrow{\text{Subordinate Staff}}\]


**2.11 Selection of Chairman:**

The RRBs Act, 1976 Section 11(1) provides the appointment of Chairman of RRBs from among the sponsor bank’s officers who have possess the essential
criteria prescribed thereof in consultation with NABARD other than in exceptional situations that warrant adherence to other prescriptions laid down by the Act. A Parliament Committee suggested that NABARD be entrusted with the responsibility for selection and appointment of Chairman of all RRBs by preparing an All India Panel. The Task Force (set up under the Chairmanship of Dr. K.G. Karmakar dated on 11 September, 2006) recommends that the Chairman of all RRBs must be selected on merit, on competitive basis and appointed by the sponsor bank from amongst a panel of qualifying officers based on criteria to be prescribed for the purpose from time to time. To encourage the deputation of talented officers as chairman of RRBs the Task Force opines that they ought to be given due weightage by the parent institution for promotion of the officer to the next upper grade as and when he is eligible for up gradation. To encourage their performance, pay or allowance for them should be attractive in a reasonable manner. The RRBs Act, does not prescribe the minimum period of time for the appointment of a chairman on the board of RRB (though maximum period is stipulated), the Task force suggests that sponsor bank or NABARD may take the responsibility of the time interval for which a chairman should have a minimum period of 2 (two) years and maximum up to 5 years.⁵

The chairman is the chief executive officer of an RRB who has power and responsibility for the affairs dealing with supervision, direction and control. He is also eligible for reappointment after the expiry of the five years periods. He presides over the Board meeting and plays a vital role in the workings of RRB, relating to liaison, planning and coordination of all functions. He has to deal with
Central Government, State Government and the senior officers of the RBI, NABARD and the sponsoring bank. Above all, he further has to take responsibility to manage the all branches operation located in remote, semi urban and urban areas. He is the responsible to keep periodically all the important data and information in details about the development of the bank before the Board.

2.12 Selection of General Manager:

A RRB which has arrived at loaning business outstanding over Rs. 3 crores and having 50 branches network may appoint an individual as general manager on the basis of recommendations of the steering committee as decided by the Government of India. He is the second rank in command (next to Chairman) and senior most officers in the ladder of a RRB. He is the responsibility person to keep smooth running of the management and effective control over the banking business, including loans and advances. In absence of Chairman, he has to manage and control the affairs of the bank. He has an overall accountability for all the aspects of the bank’s activities.

2.13 Manager of an Area:

An individual has been selected as an area manager to assist the general manager and for improving effectiveness in the administrative and operation control of RRBs. He is the responsible for the development of the areas under his command or control particularly.
2.14 Other Employees of RRBs:

Categorisations of other employees of RRBs are as follows,

- Field Supervisor,
- Technical officers or Rural Development officers,
- Clerks,
- Driver-cum-Messengers and
- Peons.

2.15 Operation Area:

The operation area of RRBs is normally the district head quarter. To evaluate the performance of RRBs and to indicate their precise role in the rural credit structure, the RBI appointed a Review Committee (Dantwala Committee) in the year 1977. According to the recommendations of this committee, the RBI in consultation with the GOI constituted an advisory forum known as the Steering Committee consisting of its representative and those of the GOI and sponsor banks to guide and oversee all aspects relating to the organisation and operation of RRBs. The Steering Committee suggested the area where new RRBs requires to be set up after taking into consideration factors like,

- Inadequate spread rural banking facilities,
- There is a wide gap in institutional credit for the weaker sections in the rural sector,
- Weakness in the existing institutional agencies,
• Areas should be relatively backward or tribal,
• RRBs are to be set-up in areas where the co-operative banks are not active and there should not be any commercial bank and
• The area should have a real potentiality for development break through with the flow of credit.

Branches of these banks are set-up at district level where,

• The deposit potential,
• The state governments’ inclination to have bank offices for implementing the various developmental schemes and
• The composition of population, for example adivasi tribal belts.

Generally, a branch of RRBs covers one to three blocks. The RRBs are established particularly on regional basis and they are working under specific small areas.

2.16 Co-ordination with Commercial Banks:

RRBs have a special feature that these banks are sponsored by a commercial bank to provide many facilities to RRBs. Sponsor bank provide trained staff at officer level of RRBs. Training to the clerks and officers is provided at the staff training centres of the sponsor bank. Effective training is to be imparted to the employees on a regular basis to orient their activities in the proper mode. Staffs of RRBs are given training courses at College of Agriculture Banking at Pune in Maharashtra state. Such type of training facility is provided by
RBI. These sponsor banks are the consultants of RRBs and they provide 35 percent of capital and personnel for running. In such way, RRBs are the co-ordination with commercial banks.

2.17 Refinance facilities to RRBs:

RBI provided refinance facility to the RRBs from 1st October 1976 onwards. In the period of 1980-81 (June-July) 52 RRBs sanctioned aggregating limits of Rs. 120 crores. The amount against these limits and outstanding as on the last Friday of June 1981 amounted to Rs. 111 crores. However, the refinance policy in respect of RRBs for the year 1981-82 was reviewed during the year. Some of the RRBs having the capability to mobilise sufficient resources and it has been decided that while the ratio of RBI would proceed as before that is, not exceeding 50 percent of eligible loans of RRBs, the involvement of RRBs should enhance, at least in the case of those which have mobilised substantial resources.

2.18 Regional Rural Bank in Business:

Each and every RRB has the status of a scheduled commercial bank and has been empowered to undertake all types of banking business that is the business of banking as is defined in section 5 (b) of the banking regulation Act, 1949 and engage in one or more forms of business specified in sub-section (1) of section 6 of this Act. These banks have equal status on par with the scheduled commercial banks and are empowered to grant crop as well as term loans through their branches. In pursuance of section 18 (2) of the RRBs Act, 1976, a RRB can undertake the following business in addition to normal banking business. RRBs
are providing short-term and medium-term loans to small and marginal farmers and agricultural labourers etc. RRBs disburse loans and advances to rural artisans, small entrepreneurs, persons who involved in trade, commerce or any productive activity.

2.19 Dimension of the Board:

By the Section 9 (1) of the RRBs Act, 1976 provides that the Board consists of the one chairman and other 8 directors to be nominated as follows,

- One chairman is appointed by the Government of India (GOI) on the suggestion of the sponsoring bank which recommends a person among its employees for the post.
- Two directors who are officer of the concerned State Government are to be nominated.
- Two directors are nominated by the Government of India.
- Two directors are nominated by the sponsoring bank.
- RBI nominated one director.
- NABARD nominated one director.

It is also mentioned in Section 9 (2) of RRBs Act that the Central Government may enhance the number of Board’s members however, the strength of the board does not exceed fifteen in the aggregate and also prescribes the manner in which the increasing number may be filled up. At present, the magnitude of the Board of Directors of RRB is 9 members uniformly for all RRBs not depending on the size, resources and area of operation of the banks.
However, the Task Force (set up under the Chairmanship of Dr. K.G. Karmakar dated on 11 September, 2006) suggested the minimum composition of the board as follows:

- One official should represent to the board from RBI, NABARD and the State Government and two from the Sponsor Bank.

- Three expert directors from among the rural economics, rural development, information technology, chartered accountancy, cottage and village industries, small and micro enterprises, or persons having experience in the working of Co-operative Banks, RRBs or Commercial Banks or any other matter of special knowledge or professional experience considered by the GOI, in consultation with RBI as useful to the RRB, to be nominated by that authority (GOI), with the provision that at least one of such experts will be a woman.

- The consisting RRB Act provides for making necessary enhance number of Board’s Directors up to 15. The Task Force recognises that such contingencies could arise in exceptional situations for individual RRBs and therefore favours the retaining the clause in the RRBs Act, unaltered.

The nominees must be in an experience and quite seniority. NABARD in consultation with GOI may fill the additional number of vacancies with experts in banking, agriculture and allied activities, micro finance, accountancy, small industries and Info Tech etc.
2.20 Board Meeting of RRBs:

In a year, there will be six board meetings and one should be compulsory in each quarter. The meeting will be held at the Head Office or in other branch as decided by the board. No business other than that for which the meeting has been convened is to be transacted except with the consent of the Chairman of the meeting and a majority of Directors present else one week’s notice for business is to be given in writing to the Chairman. This quorum of a meeting should be five provided that the Director is not able to vote them the quorum should be four. The Chairman shall preside over the board meeting. In his absence, due to any reasons at meeting or part of the meeting which any business is transacted, any members of the board shall preside the meeting authorised by him in his behalf. If both the chairman and director have to be absent the directors present at the meeting will elect one among themselves to preside over the meeting. In board meeting, all the questions regarding the business shall be decided by a majority of the vote of the director present but in case of equal vote, the person who is presiding has a second or casting vote. A director who is directly or indirectly concerned or interested in any contract, loan arrangement of proposal entered into or proposal to be entered into shall not be present at the meeting of the board when there is discussion unless his presence is so required by the other directors for the purpose of elucidating information. Such director is not entitled to vote on only such subject.

For the board meeting, it should be before 15 days circular notice.\textsuperscript{8}
2.21 Term and Condition of Directors:

At present, the term of nominee directors will be two years and a nominee director proceed till his successor is nominated. It is suggested that the term and condition of nominee directors may be as long as prescribed by the institutions nominating them however, not exceeding consecutive two years in any case at a point of time and director may not be nominated for more than two terms of two years each. The term of nominee directors may also be for a minimum period of two years though they do have eligible for re-nomination for another term of two years.

2.22 Decision Making and Board’s Functions:

Board is an organisation of higher control and a policy making body. The major role of it is formulation of policies, supervision and taking control of RRBs. According to Koontz and O’ Donnel have described a policy as “a several statement or understanding which guides or channels the thinking in decision making of sub-ordinance”. On the other, Terry defines a policy as “a policy is written or implied overall guide setting up boundaries that supply the general limits and direction in which managerial actions take place”. The above given definitions disclosed that the making policy refers to broad guidelines to which executive should carry out the business accordingly. The objective sets the goals and the policy indicates the way towards the goals. A basic policy leads the executive management in its conduct and all the operational guidelines should be under this policy. It is less universal in its application and may be changed
according to time. While forming the policy the board should maintain the prominent aspects i.e. the policy should be in consonance with objectives, avoid contradictions and inconsistence, be a temporal magnitudes be feasible and possible, forecast and project and be of stock environmental dimensions.\textsuperscript{9}

The Board of directors are needed to concentrate essentially on corporate and policy of business like framing strategic objectives, setting corporate values, business planning, annual budgeting, setting performance objective at different levels, assume responsibilities for all operations, liquidity and Asset Liability Management (ALM), make the policy on the basis of study and analysis of the available facts, delegate the authority corresponding the assignment of functions, approve the budget and appraise the working progress and take steps to keep fully the RRBs activities and problems etc.

However, the priorities of the board will include the following factors:

- Setting up corporate goals and objectives.
- Business planning and implementation.
- Providing an affair of shared objectives and priorities across the bank.
- Budgeting annually and setting performance standards.
- Marketing and customer services.
- Mobilisation of resources.
- Innovating micro-finance like Self Help Group (SHG), farmers’ club and micro enterprises etc.
- Financial inclusion.
• Credit, operational and management of market risk.

• Asset liability management including liquidity.

• Human Resource Management relating to recruitment, training and placement etc.

• Relationship with industries and motivation.

• Accounts, audit and internal controls.

• Management Information System (MIS) and monitoring systems.

• Review of interest margins and profitability.

• Technology applications.

• Investor relationship.

In the agenda of board the above aspects should contain over the year of RRB operation with suitable periodicity.

2.23 Viability of RRBs in future:

The viability of RRBs has always engaged the attention of planners and policy makers. It is of utmost important as they are to function for providing institutional finance to agricultural labourers, small and marginal farmers, landless labourers, local artisans, entrepreneurs, trade and commerce and other weaker sections of the society etc. After the two years from the establishment of RRBs in 1975, an expert committee headed by Shri M.L. Dantwala was appointed. This committee visualized on an average a RRB should take three to four years and to obtain a business level of Rs. 3 crores and at least 50 branches for achieving the Break Even Point (BEP). The RRBs had demonstrated their capability to obtain
the purpose for which they were set up. They established their image as a new

type of rural financial institution for catering to the credit needy persons to whom
institutional credit was hitherto not available". But this expectation was not
materialized.

Viability among other factors should be determined by the cost and return
relationship. The main components of the cost are interest cost on raising
resources and the cost of set-up RRBs. Interest earned on the lending is the most
important source of return. To place the cost of operations in a reasonable limit, it
was stipulated in the RRB scheme itself that the salary scales of the staff
employed in the RRBs would be analogous to that of the same ranks in the
concerned State Governments. In practice, it was really true that most of the
senior staff working in the RRBs were on deputation from the sponsoring banks.
It was also one of the reasons to reduce establishment cost. On the other hand,
sponsoring banks give the financial assignment from RBI would also provide to
help them to keep the cost of borrowing at a low level.

Consequently, the Kelkar Committee in 1986 disclosed the factors
responsible for the non-viability of the RRBs. This committee suggested more
subsidies to be provided to the RRBs by enhancing their share capital, reduction in
the rate of interest changeable on the refinance granted to them and giving interest
at higher rate on their Statutory Liquidity Ratio (SLR) funds maintain with the
sponsor bank and others.
Agricultural Credit Review Committee (Khusro Committee) in the year 1990 also deals with the viability of RRBs and depicted the objectives of serving the weaker section effectively. It would be possible only by self-sustaining credit institutions. The Committee made recommendation for their merger with their respective sponsor banks. The sponsor banks (commercial banks) themselves were well experiencing the serious strain on RRBs profitability and capital adequacy norms were further added to their problems. They (commercial banks) did not have enough resources to absorb the losses of the RRBs and provided working funds to them if the RRBs were amalgamated with sponsor banks. Hence, the amalgamation of RRBs with sponsor banks will further accentuate their problems.

Meanwhile, the labour unions of the staff of RRBs came up stronger and raised demands for wages equally to their counterparts in the public sector banks. The junior level staff recruited by the RRBs also claimed for a higher pay-scales and allowances in a line with those securing in the sponsoring banks. If their claims are conceded and to pay the demand pay-scales in the RRBs were increased at par with those in sponsoring banks which would lead to escalation in the cost of management. The higher cost of management coupled with low profit margin due to low rate of interest charged on loans to weaker sections and absence of diversified profit earning business would adversely affect the viability of the RRBs in future run. This in turn will the capacity of the RRBs for institutionalising farm credit for the weaker sectors.
The Narasimham Committee on Financial Sector Reforms (1991) deliberated the viability of RRBs. The committee suggested that each public sector bank should establish one or more rural banking subsidiaries. These rural banking subsidiaries should be treated at par with RRBs in relation to Cash Reserve Ratio (CRR) or Statutory Liquidity Ratio (SLR) requirements and refinance facilities from NABARD and sponsor banks. The committee also suggested for restructuring of RRBs on more liberal terms and the scope of business of the RRBs should be enlarged by providing opportunity to them to engage in all kinds of banking business while retaining on target group lending. With a view to provide more avenue of income, the committee further proposed that the RRBs should keep their interest rate structure in line with the commercial banks.11

As on 31st March 1993, total number of RRBs was 196 of which 22 RRBs made profit. However, after amalgamation the total number of RRBs has reduced to 82 as on 31st March 2010 out of which only three RRBs made loss and remaining could earn profit. They had met number of factors like limited area of operation, restricted scope of lending, hike salary and allowances of staff after National Industrial Tribunal (NIT) award, enhance in Non-Performing Assets (NPAs), rise in operational cost and reduction of income in interest etc. which were the foundation of non viability for them. An overall performance of RRBs disclosed that while they had fulfilled for their establishment objectives, in the contest of mounting losses incurred by them, the restructuring of the RRBs were seriously being considered.
2.24 Restructuring of RRBs:

The following aspects should be examined relating to restructuring of RRBs,

- Merger of all RRBs in a new bank namely National Rural Bank of India.
- Merger of all RRBs, in a state level bank to be constituted.
- Merger of RRBs with their respective sponsor banks and
- Identifying potential RRBs and restructuring them on case by case basis.

In December 1996, the Union Minister for Finance had already ruled out the first aspect of merging all RRBs into an all India organisation. In the same way, the second and third aspects had not been taken the final conclusion. However, the last aspect on case by case basis had already been implemented and 68 RRBs had already been taken under their comprehensive restructuring plans.

While performing the process of restructuring of RRB, the Central Government had already provided Rs. 800 crores nearly as recapitalising funds to RRBs and it was became difficult task for the government to precede the procedure of recapitalising for them year after year. It was also impossible for the government to neglect the aggressive campaign by RRB employees unions for equality in salary and perks with employees of commercial banks. With view of this, the Central Government is reportedly deliberating a disinvestment programme for the RRBs. Under such programme, the Central Government will bring out full or partial disinvestment of its stakes in RRBs. Though the exact quantum of stake the sponsor banks will be asked to hold is yet to be spelt out, the
banking circles speculate that the centre intend to transfer its share holding i.e. 50 percent entirely in the RRBs to sponsor banks by increasing their stakes to 85 percent with 15 percent to proceed with the state government.

2.25 Initiation of RBI for viability of RRBs:

RBI has kept RRBs on par with refinance facilities made available to the co-operative banks. RRBs have been eligible like commercial banks for accommodation against a mere declaration of eligible loans and advances by them.

To obtain viability of the RRBs, the RBI has granted the following concessions,

- SLR should be maintained at 24 percent (changeable from time to time) against the 35 percent by the commercial banks.
- CRR of 4 percent (changeable from time to time) should be maintained with the RBI when 9.5 percent maintained by commercial banks.
- They have been allowed to charge same rate of interest on their direct loans to their clients as the Primary Agricultural Co-operative Societies (PACS) did.
- They have been allowed to draw refinance from RBI, now from NABARD.
- Sponsor bank has done the deputation of its own staff to RRB branches for its management till RRB is unable to recruit its own staff and salary and allowance of deputed staff and chairman of concerned RRB by itself.
Sponsor Banks have arranged for the training of the RRBs staff in its training establishments at its own cost. Again, the sponsor bank has borne the expenses for training RRB branch managers at College of Agricultural Banking, RBI, situated at Pune.

RBI have taken steps for little prospect of the majority of RRBs for their viability. RBI has announced a package of measures along with great operational freedom aimed at improving the efficiency of RRBs. The loss making branches can shift their location to better or suitable place. They have also been vested to issue guarantees, purchase of draft and cheques, issue of rupee travelers cheque, locker facility, remittance facilities i.e. issue of draft, collection of cheques and bills. If these measures prove successful, financial viability of RRBs will be restored in future run. It is required that each and every RRB works out from time to time its break-even point for the bank as a whole as also for each one of the branches so that systematic efforts are made to plan their business and keep the cost under control.

2.26 Amalgamation and Consolidation of RRBs:

The issue of consolidation of banks has acquired the foremost importance with regard to banking sector reforms in the recent past. The former finance Minister Mr. P. Chidambaram said “the government would put in place an environment that would be conducive to mergers and acquisitions of banks”.

RRBs are playing a vital role for catering to the credit needy persons of the rural sectors. Although they are providing better services to the weaker sections of
rural areas, they have only limited resources and concentrate on a small geographical area. In this global era, the Indian banks are facing very keen competition from the foreign banks. The RRBs are facing competition from other Public Sector Commercial Banks (PSCBs) and also from private sector banks. Therefore, it is the high time to consider “operational amalgamation” of all RRBs of the same sponsor bank in a state. This would not only result in their better business opportunities but also enable them to overcome various deficiencies of prudent deployment of their funds, carrier progress on of their staff, dilution of “local” feeling etc. In other words, the RRBs should be true to their name i.e. Regional Rural Banks is operating in a region comprising of 10 to 15 districts and not merely restricted to one or two districts as present. To start with, 3 or 4 adjoining RRBs of the same sponsor bank could be merged.

2.27 Legal Provision Regarding Consolidation:

Under section 23 A of RRBs Act 1976, the Central Government after consultation with the NABARD, concern State Government and sponsoring bank can, in the public interest merge two or more RRBs by notification in the Official Gazette. Therefore, RRB can be merged with another RRB only. As merging process is going on, at present, there are 82 RRBs as on 31st March, 2010 of which only 3 RRBs made loss. It means most of RRBs have improved their performance for rural development.

2.28 Essential of Consolidation for RRBs:

The task of consolidation of RRBs does not refer to the merger of weak
banks with other strong banks. It means merger of two banks, either two large banks or two strong banks to become a mega in order to absorb the shocks and survive in the critical situations. Consolidation will not only provide sound financial position but a large branch network also spread over the country, the large clientele base, large resources and bigger growth in terms of assets as well as business figures. Consolidation will assist to utilise the funds effectively for regional balanced rural development. Consolidation of RRBs is very must due to the following reasons,

- To be able to compete among banks under the same ownership.
- Spread of branches.
- Regional imbalance and
- Computerisation or Installation of Automatic Teller Machines (ATMs) or networking or Core Banking Solutions.

Now a day, banking is technology based industry. All the banks are not in the situation to revive them using the modern technology available in the banking sector. As far as RRBs are concerned, each of them having a limited geographical area, the technology based banking like core banking, networking, ATMs etc. is feasible unless and otherwise they are merged in the possible way. The RRBs can be consolidated in the following manners,

- By merging with Commercial Banks.
- By merging with Co-operative Credit Structured and
- By merging with other RRBs.
In our country (India), the public sector commercial banks take a great role in the banking sector. Most of the RRBs are sponsored by the PSCBs to cater to the credit needy persons. Rural credit system is always beset by repayment problem and high cost. However, RRBs are no exception to this. The PSCBs have the healthy in financial position the RRBs also satisfy a wide spread of its network in total credit. Hence, the RRBs can be amalgamated with sponsor bank or some other PSCBs in order to strengthen the rural credit system. The financial institutional credit system in rural areas comprises of commercial banks, co-operative banks and RRBs in rural credit is dominant among others. Hence, to spread the more network of rural credit structure, the merger of RRBs with Co-operative bank can be made which will reduce the cost of management than that of the present system. Operational efficiency will improve too. Only question before the consolidation of the RRBs and Co-operative Bank is the legal perspective. If we have to solve this question, it will certainly improve the quality of rural credit. In the Global world, banks will have to be competitive in order to face the challenges and leverage the opportunities. RRBs could be able to compete with other banks.

In the year 2004, under the Chairmanship of VS Vyas, the Advisory Committee on Flow of Credit to Agriculture and related activities suggested the amalgamation of RRBs in to the state level institutions as it felt the reduction in cost of administration and economic scale. On the other hand, rural financial market is facing the rise in competition particularly from the public sector commercial banks and private sector commercial banks, the income of RRBs are
essentially localized units which is likely to decline and giving threaten signal to the sustainability of RRB. Amalgamation would be able to enhance coverage of geographical areas of RRBs. It would further result in efficient and optimum utilisation of the financial and non-financial resources due to a combination of synergy and transaction costs sharing potentials. Amalgamation would also be enable rationalisation of staff and their requirement based allocation and redeployment. On the other hand, the inter district transferability potential can improve the prevailing “not so exemplary” work culture. The amalgamated RRBs were expected to provide better customer service due to better infrastructure, computerisation of branches, pooling of experienced work force, common publicity or marketing efforts etc. and could also derive the benefit of a large area of operation, increase credit exposure limits and more diverse banking activities.

On the basis of these suggestions, Government of India allowed RRBs sponsored by the same bank within the same state to be merged in a phase wise-manner. As a result of the amalgamation, the total number of RRBs was reduced from 196 to 133 as on 31st March, 2006 and to 96 as on 30th April, 2007. Under the process of amalgamation, 168 RRBs have been amalgamated to form 55 new RRBs the list of amalgamated has been shown in Appendix-II as on July 20th, 2009. The process of consolidation through amalgamation of RRBs is now almost complete, resulting in a decline in the total number of 83 RRBs to 86 as on 31st March, 2009; again reduced to 84 as on July 31st, 2009 and further decreased to 82 as on 31st March, 2010 (46 amalgamated and 36 stand alone, including one new RRB, viz. Puduvai Bharatar Gramya Bank established on 26.03.2008, in the Union territory
of Puducherry.) The process of recapitalisation of RRBs with negative net worth is complete, with 27 RRBs fully recapitalised with an amount of Rs. 1,796 crores at the end of July 2009.\textsuperscript{14}

2.29 Branch Network:

Measures has been taken for further liberalisation the branch licensing policy for RRBs during 2008-09 including relation of conditions for opening branches in hitherto uncovered districts and opening of service or central processing centres or back offices. During 2008-09, the RBI granted 780 licenses to RRBs for opening branches out of which 690 were opened. The number of branches of RRBs increased from 13,920 branches as on 31\textsuperscript{st} March, 1989 to 14,494 as on 31\textsuperscript{st} March, 2006 and further enhance to 15,475 branches. The network of the 45 amalgamated RRBs as on April, 2007 was quite large and diverse varying from 85 to 680 branches. The Uttar Bihar Kshetriya Gramin Bank, an amalgamated RRB, has 680 branches. The branch network of stand-alone RRBs varied between 8 and 242 as on 31\textsuperscript{st} March, 2006.

2.30 District Coverage:

As on 31\textsuperscript{st} march 2008, RRBs covered 594 districts out of 605 districts. After amalgamation, RRBs were quite large regarding its coverage geographical area in most part of the state in many cases. In Assam, Assam Gramin Vikas Bank, an amalgamated RRB covered 25 districts which were the highest in the country (India), while other five amalgamated RRBs cover 10 or more district each. But, 40 RRBs covered two districts and 16 RRBs covered a single district
each in 2005-06. Increasing district coverage by the RRBs provides them an important segment of the Rural Financial Institutions (RFI) for financial inclusion. Financial inclusion may be defined as “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost”. Financial inclusion is not an option, but a compulsion.  

Further, state-wise consolidation of banks has the possibility to considerable synergies in term of manpower and fund resources, initiation to new product launch, as particularly those run by technology like internet banking, remittance transaction, debit or credit cards and anywhere banking services, transaction cost savings etc. in the long term. The larger areas of operation consequential to consolidation also provides considerable leverage in profit and viability prospects of RRBs on account of their ability for cross-transfer of business risks across different regions of operational areas and sectors. 

A simple realignment of financial performance data for the year 2005-06 in tune with post-consolidation scenario improved the viability status for the consolidated RRBs.
### Table 2.2

Viability status of RRBs in different scenarios of consolidation

(Rs. in crore)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Pre-amalgamation</th>
<th>At present stage of amalgamation</th>
<th>On completion of State-wise, sponsor bank-wise amalgamation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total no. of RRBs</td>
<td>196</td>
<td>102</td>
<td>77</td>
</tr>
<tr>
<td>2</td>
<td>No. of RRBs in profits</td>
<td>163</td>
<td>83</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>(% of total)</td>
<td>83%</td>
<td>81%</td>
<td>83%</td>
</tr>
<tr>
<td>3</td>
<td>No. of RRBs in losses</td>
<td>33</td>
<td>19</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>(% of total)</td>
<td>17%</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>4</td>
<td>No. of RRBs with accumulated losses</td>
<td>89</td>
<td>51</td>
<td>42</td>
</tr>
<tr>
<td>5</td>
<td>Amount of accumulated losses</td>
<td>2725</td>
<td>2674</td>
<td>2619</td>
</tr>
</tbody>
</table>


The analysis establishes considerable advantage in the proposal for further consolidation of banks as suggested by various Experts Committee that previously studied the subject of viable RRBs operation and supported by an overwhelming majority of other important stakeholder like senior functionaries of banks, employees and their unions etc., with whom the Task Force had occasion to interface. The RBI's prescription for the financial sector reforms also laid considerable emphasis on banking consolidation and self-reliance. The Internal Working Group of RBI on RRBs under the chairmanship of Shri A.V. Sardesai
also suggested State-wise consolidation of RRBs. While supporting such State level consolidation process, the Task Force consider that pushing the consolidation agenda beyond state levels will not be worth pursuing as the same could compromise the regional characteristics that are fundamental to RRBs and many lead to creation of banking structures parallel to Commercial Banks, which will not address the banking needs of the rural people.

2.31 Information Technology and Communication (ITC):

A working group was constituted lead by Shri G. Padmanabhan to explore various affordable ITC – solutions suitable for RRBs and to disclose the cost elements and recommend the manner and criteria for funding ITC solutions. The group examined the existing constraints in both financial and infrastructural in adoption of financial inclusion initiative by the RRBs. It was announced in the annual policy statement for 2009-10 that a scheme would be work-out in consultation with NABARD, to decide the manner of providing assistance to RRBs adopting ITC solutions for financial inclusion in districts identified as having high level of exclusion.16

2.32 Core Banking Solution (CBS):

For better customer service, RRBs need to adopt appropriate technology and migrate to core banking solutions for which a working group under the chairmanship of Shri G. Srinivasan was constituted to prepare a road map for migration to CBS by RRBs. The working group reviewed the present status of computerisation in RRBs and also examined the use of solar power as an
alterative source of energy for powering branches located in remote places and recommended that although heavy initial cost was involved in installation solar power units, the long-term benefits would justify powering branches through solar power. September 2011 as the target for all RRBs to move towards CBS with all branches of RRBs opened after September 2009 to be CBS. Every aspect of banking will be transformed by new technology by 2020. Customer-friendly product, delivery channels, relationship banking, dependency on Information Technology system and competitive pricing would be driving forces. The most successful institutions will be those that combine visionary technology and very competitive pricing with strong relationship and brands built on trust with previous in depth experience of the clients business. Bank would have adapted to high-tech banking as a necessity of e-commerce and e-banking etc.
References:


15. NABARD, Hand Book on Financial Inclusion, Financial Inclusion Department, 8th Floor, C wing, Head Office, Mumbai, p. 1.


17. Ibid., p. 262.