CHAPTER-II

MANAGEMENT OF REGIONAL RURAL BANKS

Subject to the provision of the RRBs Act 1976, the general superintendent, direction and management of the affairs and business of a Regional Rural Bank shall vest in the hands of Board of Directors who may exercise all the powers and discharge all the functions which may be exercised or discharged by the Regional Rural Bank.

In discharging its functions the Board shall act on business principles and shall have due regard to public interest.

BOARD OF DIRECTORS:

1) The Board of Directors shall consist of the chairman appointed under sub-section (I) of section (II) and the following other members namely:

   a) One director, who is an officer of the Reserve Bank of India, to be nominated by the Bank.
   
   b) One director, who is an officer of the National Bank, to be nominated by the Bank.
   
   c) Two directors, who are not officers of the Central Government, State Government, Sponsor Bank,
National Bank, Reserve Bank or any other Bank to be nominated by the Central Government.

d) Two directors, who are officers of the concerned State Government, to be nominated by that Government.

e) Two directors, who are officers of the Sponsor Bank, to be nominated by that Bank.

2) The Central Government may increase the number of members of the board; however, the number of directors does not exceed fifteen in the aggregate and also prescribe the manner in which the additional number may be filled in.¹

**TERM OF THE OFFICE OF THE DIRECTOR:**

A Director excluding the Chairman shall hold office for such period not exceeding two years, from the date when he assumes office, as the authority nominating him may specify at the time when the nomination is made and may, on the expiry of the said period, continue to hold office until his successor has been nominated and shall also be eligible for re-nomination.

¹ Tannan, M.I.-Banking Law & Practice in India; Oriental Law House, New Delhi.
CHAIRMAN:

1) The Sponsor Bank shall appoint an individual to be the Chairman of a Regional Rural Bank and specify the period, not exceeding five years, for which such individual shall be subject to the provisions of subsection (4) to hold office as the chairman, provided that no appointment of such an individual shall be made:

(a) If such an individual is an officer of the Sponsor Bank, except after consultation with the National Bank.

(b) In any other case, except with prior approval of the Central Government.

NOTWITHSTANDING ANYTHING CONTINUED IN SUB-SECTION (1)

The Sponsor Bank shall have the right to terminate the term of office of the chairman at any time before the expiry of the period specified in subsection(1).

(1) PROVIDED THAT NO SUCH TERMINATION SHALL BE MADE

a) If the chairman is an officer of the Sponsor Bank except after consultation with the National Bank, and
b) In any other case except with the prior approval of the Central Government.

i) Further provided that where the Chairman is not an officer of the Central Government, State Government, Reserve Bank, National Bank, Sponsor Bank or any other Bank, he shall be given notice of not less than three months in writing or three months salary and allowances in lieu of such notice.

ii) The Chairman shall have the right to resign his office at any time before the expiry of the period specified in sub-section (1) by giving the Sponsor Bank, notice of not less than three months in writing.

2) The individual, appointed as a Chairman, under sub-section (1) shall on the expiry of the period specified under the sub-section, be eligible for re-appointment.

3) The Chairman shall devote his whole time to the affairs of Regional Rural Bank and shall be subject to the superintendence, control and direction of the Board and the management of the whole of the affairs of the Regional Rural Bank.
4) The Sponsor Bank may at any time remove the Chairman from office provided that no such removals be made:
   a) If the Chairman is an officer of the Sponsor Bank, except after consultation with the National Bank.
   b) In any other case except with the prior approval of the Central Government provided further that no person shall be removed from his office under this sub-section, unless he has been given an opportunity of showing cause against his removal.

5) The Chairman shall receive such salary and allowances and be governed by such terms and conditions of service as may be determined by the Sponsor Bank in consultation with the National Bank.

6) If the Chairman is, by infirmity or otherwise rendered incapable of carrying out his duties or is absent, on leave or otherwise in circumstances not involving the vacation of office, the Central Government may appoint another individual to act as the Chairman during the absence of the first mentioned Chairman.
DISQUALIFICATION OF DIRECTORS:

A person shall be disqualified for being appointed or as the case may be, nominated as and for being a director, if he:

a) is or has been convicted of an offence which, in the opinion of the Central Government involves moral turpitude, or

b) is or any time has been adjudged insolvent or has suspended payment of his debt or has compounded with his creditors, or

c) is of unsound mind and stands so declares by a competent court.

VACATION OF THE SEAT OF DIRECTOR:

1) If a Director,

a) become subject to any disqualification specified in section 12, or

b) is absent without leave of the board for more than three consecutive meetings there of his seat shall there upon become vacant.

2) A director may resign his office by giving notice thereof in writing to the authority by which he was nominated, an on such resignation being accepted. The director shall be deemed to have vacated his office.
MEETINGS OF BOARD:

1) The Board of Directors of a Regional Rural Bank shall meet at such time and place and shall observe such rules of procedure in regard to the transaction of business at its meetings as may be prescribed.

2) The Chairman of the RRB shall preside over every meeting of the Board and in his absence such director as the chairman may generally, or in relation to any particular meeting, authorise on his behalf, shall preside, and in the absence of both the Chairman and the director so authorised, the director present at the meeting shall elect one from among themselves to preside over the meeting.

For the purpose of this sub-section, absence from a meeting means not-attendance for any reason whatsoever at the meeting or any part of the meeting during which any business is transacted.

3) All questions at the meeting of the Board shall be decided by a majority of the votes of the directors present at voting and in case of equality of votes the person presiding shall have a second or casting vote.

4) As a director, no director shall take part in the discussion of or vote on, any contract loan, arrangement or proposal entered into or to be entered into, by or on behalf of the RRB, if he is in any way,
whether directly or indirectly, interested in the contract, loan arrangement or proposal and, where a director is interested in any such matter, he shall at the earliest possible opportunity disclose to the Board, the nature of his interest in such contract, loan, arrangement or proposal and where he does so, his presence at the meeting shall not count for the purpose of forming any quorum at the time of any such discussion or vote, and if he does vote, his vote shall be void. Provided that nothing contained in this sub-section shall apply to such director by reason only his being:

i) A shareholder (other than a director) holding not more than two percent (2%) of paid-up capital in any public company within the meeting of the companies Act 1956 (1 of 1956), or any corporation established by or under any law for the time being inforce in India or any cooperative society, with which the RRB has entered into, or propose to enter into, any contract loan arrangement or proposal or

ii) A director of an RRB as such,
COMMITTEE OR BOARD:

The Board may constitute such committees whether consisting wholly of directors or wholly of other persons or partly of directors and partly of other persons, at it may think fit, for such purposes as it may decide.

FEES AND ALLOWANCES OF DIRECTOR AND MEMBERS OF THE COMMITTEE:

1) Every director and every member of a committee (other than the Chairman) shall be paid fees and allowances as may be determined by the Central Government, provided that no fees shall be paid to any director, or member of a committee, if he is an officer of the Central Government, State Government, the National Bank, the Sponsor Bank or any other bank.

2) The allowances payable to a director or a member of a committee who is an officer of a Central Government, or any other bank, shall be paid by the Government or the bank by which such officer is employed, and the allowances and fees payable to any other director or member of a committee shall be payable by the concerned Regional Rural Bank.
STAFF OF RRBs:

1) A Regional Rural Bank may appoint such number of officers and other employees as it may consider necessary or desirable for the efficient performance of its functions and may determine the terms and conditions of their appointment and service.

Provided that the remuneration of officers and other employees appointed by an RRB shall be such as may be determined by the Central government and in determining such remuneration the Central Government shall have due regard to the salary structure of the employees State Government and the local authorities of comparable level and status in the notified area.

2) Notwithstanding anything contained in the Industrial Dispute Act, (14 of 1947) or any other law for the time being in force, no award judgement/degree judgement decision or order of any Industrial Tribunal, Court or other authority made before the commencement of this or other authority made before the commencement of this act, shall apply to the terms and conditions in relation to the person appointed by a Regional Rural Bank.
3) The officers and other employees of an RRB shall exercise such powers and perform such duties as may be entrusted or delegated to them by the Board.

ORGANISATION STRUCTURE

A representative organisational structure for RRBs is shown in the Figure 2.1. However, there are variations depending on the staff strength, volume of business, area of coverage, number of branches and other local priorities. Board is the top management authority in RRB and the chairman is the chief executive. He is assisted by a General manager/Administrative Officer. Various functional departments at Head office are headed by the officers of the rank of senior managers. To facilitate the effective control of Head office on the branches, separate Area Offices have been established in most of the RRBs. These are managed by Area managers who are equivalent to senior managers at Head Office. Generally an Area Office looks after 25-35 branches. Branches in RRBs are headed by Branch managers, who in turn are assisted field officers and 2-3 clerks in large branches. However, smaller branches in several banks have only one person. Although Area Offices were opened with the objective of assisting Head Office in control and supervisions on one hand and providing guidance to branches on the other, but
in reality branch managers perceive them as one more tier between them and Head Office. Similarly Area managers also feel that role of area office has not been made clear. Area office is generally not equipped with sufficient staff. In many banks Area Office is housed in head office premises itself or in the same city or town which makes it less effective.

Apart from formal organisational structure in RRB there is an informal operating structure. Branch manager prefers to meet chairman or general manager as they do not perceive departmental heads at Head Office or Area Office capable enough to guide them. It appears that the concept of Area Office has not been thoroughly integrated with the organisational structure of RRB. A typical hierarchical structure of a RRB as shown in Figure 2.2 which indicates that hierarchical in RRB is similar to that in commercial banks. At the same time the relative position of different tiers does not reflect in real sense the responsibilities and authority. RRBs were conceived as low cost institutions by the planners. Narsimham Committee had in fact suggested that if RRBs were only duplicate the staffing and salary scales of the existing commercial banks they might as well not be set up. This was precisely the reason that RRBs were expected not to follow the organisational hierarchy, procedures, systems
and behavioural patterns or in other words the ‘culture’ of the existing commercial banks if they were to operate on low expense ratios.

Figure-2.1
Organisational Structure of RRB
BUSINESS OF AN RRB:

1) Every Regional Rural Bank shall carry on and transact the business of banking as defined in clause (b) of section 5 of the Banking Regulation Act, 1949 (10 of 1949) any may engage in one or more form of business specified in sub-section (1) of section 6 of that act.
2) Without prejudice to the generally of the provisions of subsection (1) every RRB may in particular undertake the following types of business namely.\(^2\)

i) The granting of loans & advances, particularly to small and marginal farmers and agricultural labourers whether individually or in groups, and to cooperative societies including agricultural marketing societies, agricultural processing societies, co-operative farming societies, primary agricultural credit societies, or farmer service societies for agricultural purpose or agricultural operations or for other purpose connected herewith, and

ii) The granting of loans and advances particularly to artisans, small entrepreneurs and persons of small means engaged in trade, commerce or industry or the productive activities, within the notified area in relation to the RRB.

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ACCOUNTS AND AUDIT OF RRBs:

CLOSURE OF ACCOUNTS:

1) Every Regional Rural Bank shall cause its books to be closed and balanced as on the 31st December or such other date in each year as the Central Government may be the notification in official Gazette, specify and shall appoint with the approval of Central Government auditors for the audit of its account.

Provided that with a view of facilitating the transition from one period of accounting to another period of accounting under this sub-section, the Central Government, may be order published in the official Gazette make such provisions as it considers necessary or expedient for the closing and balancing of or for other matters relating to the books in respect of the concerned years.

2) Every auditor of an RRB shall be a person who is qualified to act as an auditor of a company under section 226 of the companies Act, 1956 (1 of 1956) and shall receive such remuneration as the RRB may fix with the approval of the Central Government.

3) Every auditor shall be supplied with a copy of the annual balance-sheet and profit and loss account of the RRB, and a list of all book kept, in the RRB,
and it shall be the duty of the auditor to examine the balance-sheet and vouchers relating thereto and in the performance of his duties, the auditor:

a) shall have, at all reasonable times, access to the books, accounts and other documents of the Regional Rural Bank.

b) may at the expense of the RRB, employ accountants or other persons to assist him in investigating such accounts, and

c) may in relation to such accounts, examine the Chairman or any officer or employee of the RRB.

4) Every auditor or an RRB shall make a report to that bank upon the annual balance-sheet and accounts and in every such report shall state.

a) is whether in his opinion, the balance-sheet is full and fair, whether the balance-sheet is containing all necessary particulars and is properly drawn up so as to exhibit true and fair view of the affairs of the RRB and in case he had called for any explanation or information; whether it is satisfactory;

b) whether or not the transactions of the RRB which have come to his notice, have been within the powers of that bank;
c) whether or not, the returns received from the offices and branches of the RRB have been found adequate for the purpose of his audit;
d) whether the profit and loss account shows a true balance of profit or loss for the period covered by such accounts, and
e) any other matter, which he considers, should be brought to the notice of the RRB.

ANNUAL REPORT TO BE FURNISHED TO THE SHAREHOLDERS:

1) Every RRB shall, within three months from the date of the closure of its accounting year or such further period not exceeding three months, as may be permitted by the Reserve Bank, sent to each of its share holders a report as to its working and activities during the accounting year immediately proceeding, to the gather with a copy of its balance sheet, profit and loss account and the auditors report in relation to the accounts of the said accounting year.

2) The Central government shall cause every auditor’s report and report on the working and activities of each RRB to be laid, as soon as may be after they are received, before each house of Parliament.
DISPOSAL OF PROFITS:

After making provisions for bad and doubtful debt, depreciation in assets, contribution to staff and superannuation funds and all other matter for which provision is necessary or which are usually provided for by banking companies, under law an RRB may declare a dividend out of its net profits.

REGIONAL RURAL BANK TO BE DEEMED TO BE A CO-OPERATIVE SOCIETY FOR THE PURPOSE OF INCOME TAX ACT 1961:

For the purpose of Income tax Act, 1961 (43 of 1961) or any other enactment for the time being in force relating to any tax, an income profit or gain a regional rural Bank shall deemed to be a cooperative society.3

INTEREST TAX NOT PAYABLE:

Notwithstanding anything contained in the Interest Tax-Act 1974 (45 of 1974). No RRB shall be liable to pay any tax under that Act.4

3 Tannan, MI Op, Cit, P-1194
4 Ibid
AMALGAMATION OF AN RRB:

1) If the Central Government after consultation with the National Bank, concerned State Bank, is of the opinion that it is necessary in the public interest or in the interest of the development of the area served by any RRB or in the interest of the RRBs themselves, that two or more RRBs should be amalgamated, that Government may, by notification of such RRBs into a single RRB with such constitution property powers, rights, interests, authorities and privileges, and with such liabilities, duties and obligations, so may be specified in the notification.

2) Every notification issued under sub-section (1) shall indicate the date with effect from which for amalgamation shall become effective.

3) Every notification issued under sub-section (1) may also provide for all or any of the following matters;
   a) The continuance of service of all the employees of the transfer of or RRB excepting such of them as not being workmen within the meaning of the Industrial Disputes Act 1947 (14 of 1947) are specifically mentioned in the notification, in the transferred RRB at the same remuneration and on the same terms and
conditions or service, which may they were getting, or as the case may be by which they were being governed, immediately before the date on which the amalgamation takes effect.

b) Notwithstanding anything contained in Clause (a) where any of the employees of the transferor RRBs, not being workmen within the meaning of the Industrial Dispute Act, 1947 (14 of 1947) are specifically mentioned in the notification, or where any employees of the transferor RRBs have by notice in writing given to the transferee RRB at any time months next following the date on which the amalgamation takes effect, intimated his intention of not becoming an employee of the transferee RRB, the payment of such employee of compensation, if any, to which he is entitled under the Industrial Dispute Act 1947 and such gratuity, provident fund and other retirement benefits ordinarily admissible to him under rules or authorisation or the concerned transferee of RRBs immediately before that date.

c) The other terms and conditions for the amalgamation of RRBs, and
d) The continuance by or against the transferee RRB of any pending legal proceeding by or against any transferor RRB and such consequential, incidental and supplemental provisions, as may in the opinion of the Central Government be necessary to give effect to the amalgamation.

4) Every notification issued under sub-section (I) shall be laid before each house of the parliament, as soon as, may be, after it has been made.

NOTIFICATION UNDER SECTION 23A TO CONCERNED PARTIES:

1) A notification issued under sub-section (I) of section 23A shall constitute sufficient notice of the provisions thereof to all the parties concerned and shall be binding on the transferor RRBs and the transferee RRB and to the depositors, creditors, employees and all other persons having dealing with such banks.

2) Notwithstanding anything contained in the Transfer of Property Act 1882 (4 of 1882) or the Registration Act 1908 (16 of 1908) any notification issued under
sub-section (I) of section 23A shall be sufficient conveyance, in accordance with the provisions of the notification of the business, properties, assets and liabilities, rights, interests, powers, privileges, benefits and obligations of whatever nature of the transferor RRBs to the transferee RRB.

3) On and from the date on which the amalgamation takes effect under section 23A reference to the transferor RRBs in any agreement, conveyance, assurance, power of attorney or any other document of whatsoever nature shall be deemed to be a reference to the transferee RRB and the rights and the obligations of the transferor RRB shall be deemed to be the rights and obligations of the transferee RRB to extent specified in the said amalgamation.

CESSATION OF BUSINESS OF TRANSFEROR RRBs:

On and from the date on which the section 23A the transferor RRBs shall cease to carry on business including that of making of any payment to any depositors or discharge any liability or obligation to the creditors except to the extend as may be necessary for the
implementation of the provisions of the said amalgamation.

LIQUIDATION OF RRBs:

Where a notification is issued for the amalgamation of RRBs under sub-section (1) of section 23A the Central Government may by a further notification in the official Gazette, direct that on such date, as may be specified there in the transferor RRBs which by reason of amalgamation will cease to function, shall stand dissolved and such direction shall take effect notwithstanding anything to the contrary contained in section 26.

POWERS OF CENTRAL GOVERNMENT TO GIVE DIRECTIONS:

1) An RRB shall in the discharge of its function, be guided by such directions in regard to matters of policy involving public interest as the Central Government may after consultation with the Reserve Bank, give.

2) If any question arises as to whether any such direction relates to a matter of policy involving
public interest the decision of the Central Government thereon shall be final.

INSPECTION AUDIT AND SCRUTINY BY THE SPONSOR BANK:
Notwithstanding anything contained in section 19 and without to the provisions of section 35 of the Banking Regulation Act 1949, (10 of 1949) the sponsor Bank shall, from time to time, monitor the progress of the RRBs sponsored by it and cause inspection, internal audit and scrutiny to be made by one or more of its officers and suggest corrective measures to be taken by such RRB.

OBLIGATIONS AS TO FIDELITY AND SECRECY:
1) An RRB shall observe, except as otherwise required by law, the practices and usage customary among bankers and in particular it shall not divulge any information relating to, or to the affairs of, its constituents except in circumstances in which it is in accordance with the law or practice and usage customary among bankers, necessary or appropriate for the RRB to divulge.
2) Every director, member of a committee or auditor, officer or other employee of an RRB shall, before
entering his duties, make a declaration of fidelity and secrecy in the form set out the schedule to this Act.

BAR TO LIQUIDATION OF AN RRB:

No provision of law relating to the winding up of companies shall apply to an RRB and an RRB shall not be placed in liquidation save by the order of the Central Government and in such manner as it may direct.

DEFECTS IN APPOINTMENT OR CONSTITUTION NOT TO INVALIDATE ACTS OR PROCEEDINGS:

(1) No act of a Chairman acting in good faith shall be invalid merely by reason of any defect in his appointment or in the procedure.

(2) No act or proceeding of any board of directors or of any committee of an RRB shall be invalid merely on the ground of the existence of any vacancy in, or defect in the constitution of such board or committee as the case may be.

(3) Act done by a person, acting in good faith as director or the member of committee of an RRB shall be valid notwithstanding that it may afterward be discovered that his appointment was invalid by reason of defect or disqualification or had
terminated by virtue of any provision contained in any law for the time being in force.

Provided that nothing in this section shall be deemed to give validity to any act done by a member or member of any committee of an RRB after his appointment has been shown to the RRB to be invalid or to have terminated.

INDEMNITY OF DIRECTORS ETC.:

(1) A director or a member of a committee of an RRB shall not be responsible for any loss or expense caused to such bank by insufficiency or deficiency of the value of, or title to, any property or security acquired or taken on behalf of an RRB or by the insolvency or wrongful act of any customer or debtor or anything done in, or in relation to, the execution of the duties of his office, unless such loss, expense, insufficiency or deficiency was due to any willful act or default on the part of such director or member.

(2) The Chairman of an RRB and every officer of the Central Government or State Government or an office of the Reserve Bank or the National Bank or the Sponsor Bank and every office or other employee of an RRB shall be indemnified by such bank against all losses and expenses incurred by him in or in
relation to the discharge of his duties except such as have been caused by his own willful act or default.

POWER TO MAKE RULES:

(1) The Central Government may, after consultation with National Bank and Sponsor Bank by notification in the Official Gazette, make rules for carrying out the provisions of this Act.

(2) In particular and without prejudice to the generality of the foregoing power such rules may provide for all or any of the following matter:

(a) the manner in which the additional number of members of the Board may be filled-in under section 9(2),

(b) the time and place at which the Board of Directors of an RRB shall meet and the rules of procedure which shall be observed by the Board in regard to the transaction of business at its meetings, under section 14(1),

(c) the manner in which the officers and other employees of the RRBs shall be appointed,

(d) any other matter which is required to be, or may be prescribed.

(3) Every rule made by the Central Government under this Act shall be laid, as soon as may be after it is...
made, before each House of the Parliament while it is in session, for a total period of thirty days which may be completed in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive session aforesaid both Houses agree in making any modification in the rule both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect as the case may be, so however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

POWER TO MAKE REGULATIONS:

(1) The Board of Directors of an RRB may after consultation with the National Bank, and the Sponsor Bank and with the previous sanction of the Central Government by notification in the Official Gazette make regulations, not inconsistent with the provisions of this Act and the rules made thereunder to provide for all matters for which provision is necessary or expedient for the purpose of giving effect to the provisions of this Act.
(2) Every regulation shall, as soon as may be after it is made under this Act by the Board of Directors, be forwarded to the Central Government, and that Government shall cause a copy of the same to be laid before each House of the Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if before the expiry of the session immediately following the session or the successive sessions aforesaid both Houses agree in making and modification in the regulation, shall thereafter have effect only in such modified form or be of no effect, as the case may be so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that regulation.

REMOVAL OF DIFFICULTIES:

If any difficulty arises in giving effect to the provisions of this Act, the Central Government may make such order, not inconsistent with the provisions of this Act as may appear to it to be necessary for the purpose of removing the difficulty.

Provided that no such order shall be made after the expiry of a period of five years from the commencement of this Act.

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