

AMALGAMATION OF REGIONAL RURAL BANK: ECONOMY

NEWS: Govt Merges 26 RRBs Under 'One State, One RRB' Plan to Boost Efficiency

WHAT'S IN THE NEWS?

The Union Ministry of Finance has initiated the fourth phase of Regional Rural Bank (RRB) mergers under the 'One State, One RRB' policy, reducing the total from 43 to 28 for better efficiency. This aims to enhance rural banking through unified governance, technology, and improved credit access.

Recent Amalgamation of Regional Rural Banks (RRBs)

- The **Department of Financial Services (DFS)** under the Ministry of Finance has notified the **amalgamation of 26 Regional Rural Banks (RRBs)**.
- This marks the **fourth phase of RRB consolidation**, following the principle of '**One State, One RRB**', with the aim to improve efficiency and reduce fragmentation.

About Regional Rural Banks (RRBs)

- **Establishment and Purpose:**
 - RRBs were established in **1975** on the recommendations of the **Narasimham Working Group**.
 - Governed by the **RRB Act of 1976**, they aim to **provide banking services to rural areas**, focusing on **small and marginal farmers, agricultural labourers, and rural artisans**.
- **Ownership Structure:**
 - **Central Government:** 50%
 - **State Government:** 15%
 - **Sponsor Bank** (usually a PSU bank): 35%
- **Regulation and Supervision:**
 - Regulated by the **Reserve Bank of India (RBI)** under the **Banking Regulation Act, 1949**.
 - Supervised by **NABARD (National Bank for Agriculture and Rural Development)**.
 - For taxation, RRBs are treated as **cooperative societies** under the **Income Tax Act, 1961**.

Why the Need for Amalgamation?

- **Issues with Earlier Setup:**

- Multiple RRBs operating in the same state led to **duplication, inefficient governance, overlapping areas, and high operational costs.**
- Many RRBs struggled with **low profitability and technological backwardness.**
- **Solution:** The **‘One State, One RRB’ Policy**, introduced to consolidate RRBs for **better efficiency and wider reach.**

About ‘One State, One RRB’ Policy

- **Launched By:**
 - Strategic initiative of the **Department of Financial Services (DFS)** under the **Ministry of Finance.**
- **Purpose:**
 - To **merge multiple RRBs in each state** into a **single entity** for that state.
 - Streamlines operations and enhances the delivery of financial services in rural areas.
- **Key Objectives:**
 - **Operational Efficiency:** Leverages scale, standard processes, and unified banking software.
 - **Cost Rationalization:** Reduces administrative burden and infrastructure overlap.
 - **Improved Governance:** Easier planning and accountability with a single RRB per state.
 - **Technology Upgrade:** Unified Core Banking Systems (CBS), digital banking, and mobile services.
 - **Enhanced Financial Inclusion:** Boosts rural outreach and loan disbursements for agriculture and micro enterprises.
 - **Better Credit Flow:** Stronger capital base improves the ability to lend to priority sectors.

Phases of RRB Amalgamation in India

| Phase | Period | Objective | Outcome |
|-----------|----------------|---|-----------------------------|
| Phase I | 2006–2010 | Address operational inefficiencies and improve viability | Reduced RRBs from 196 to 82 |
| Phase II | 2013–2015 | Enhance operational scale and efficiency | Reduced to 56 RRBs |
| Phase III | 2019–2021 | Align RRBs with modern banking needs and digital services | Reduced to 43 RRBs |
| Phase IV | 2025 (Current) | Implement ‘One State, One RRB’ across India | Further reduced to 28 RRBs |

Post-Amalgamation Scenario (Phase IV)

- **Current Presence:**
 - As of now, **43 RRBs** operate in **26 States** and **2 Union Territories**.
- **Post-Merger Setup:**
 - Only **28 RRBs** will remain, with each state having a **single RRB**.
 - These will cover more than **700 districts** through **22,000+ branches**.
- **Branch Distribution:**
 - Around **92% of RRB branches** are located in **rural and semi-urban areas**, serving as the **backbone of rural banking**.

Key Benefits of the Consolidation

- **Uniform Service Standards:** Common systems allow better customer service and grievance redressal.
- **Technology Integration:** Faster rollout of digital banking tools like mobile apps and digital payments.
- **Credit Expansion:** Easier loan delivery to **self-help groups (SHGs), MSMEs, and farmers**.
- **Stronger Rural Linkages:** RRBs act as intermediaries in implementing rural schemes like **PM-KISAN, PM Awas Yojana**, etc.

Challenges in the Amalgamation Process

- **Human Resource Adjustment:**

- Staff redistribution, retraining, and harmonization of service rules across previously separate entities.
- **Infrastructure Gaps:**
 - Differences in technology, building capacity, and connectivity across branches.
- **Customer Awareness:**
 - Rural customers may face confusion during the transition phase—banking literacy campaigns are needed.
- **Local Needs vs Centralization:**
 - Need to ensure that local-level banking needs are not lost in a larger, consolidated entity.

Government Response and Mitigation Measures

- **Capacity Building:**
 - Training programs for staff to adapt to new systems and ensure smooth transition.
- **Financial Literacy Drives:**
 - Campaigns to educate rural customers about digital banking and new processes.
- **Technology Support:**
 - Core banking upgrades and digital inclusion through mobile vans, ATMs, and mini-branches.

Source: <https://www.newsonair.gov.in/finance-ministry-merges-26-rrbs-under-one-state-one-rrb-plan/>