High Attrition Rates in Regional Rural Banks

For Prelims: **Regional Rural Banks**, **National Bank for Agriculture and Rural Development** , **Reserve Bank of India**, **Non-Performing Assets**, **Digital banking**, **Pradhan Mantri MUDRA Yojana** , **One District One Product**

For Mains: Challenges in Regional Rural Banks, Rural Development, Banking Sector and Reforms

Source: BS

Why in News?

Recently the Union Finance Minister addressed the **high attrition rates in** **Regional Rural Banks (RRBs),** urging these institutions to adopt more employee-friendly policies.

- This highlighted the need for reforms to **enhance employee satisfaction**, improve customer service, and ultimately boost the performance of RRBs.

Note: Attrition rate is a metric that quantifies the **rate at which employees depart an organisation,** whether voluntarily or involuntarily.

Why are RRBs Facing High Attrition Rates?

- **Lack of Employee Benefits:** RRB employees often leave due to better opportunities in **Scheduled Commercial Banks (SCBs)**, which offer superior facilities despite similar pay scales.
    - According to **National Bank for Agriculture and Rural Development (NABARD)** the total number of employees in **43 RRBs decreased from 95,833 in FY 2022 to 91,664 in FY23,** while the number of branches saw a minor increase from 21,892 in FY22 to 21,995 in FY23.
- **Challenging Work Environment:** Employees who relocate from other states to work in **RRBs struggle to adapt to rural life,** prompting them to seek other opportunities.
- **Slower Career Growth:** Compared to SCBs, RRBs offer slower promotions and fewer incentives, leading to dissatisfaction among employees.

How Can RRBs Improve Employee Retention?

- **Prioritising Local Postings:** Assigning employees to **work in their home regions** can help them **balance their personal and professional lives** better, reducing the desire to leave for other opportunities.
- **Enhancing Employee Benefits:** RRBs should strive to offer benefits and facilities that are competitive with those provided by SCBs, such as **improved housing, healthcare, and**

retirement plans.**
- **Accelerating Career Growth:** Implementing faster promotion tracks and more frequent **career advancement opportunities can motivate employees** to stay and grow within the organisation.
- **Supportive Work Environment:** RRBs should foster a more employee-friendly culture by **offering flexible working conditions, regular training, and professional development programs** to enhance job satisfaction.
  - Providing additional support for employees posted in rural areas, such as better **housing options and community engagement activities,** can help them adapt and thrive in their roles.
- **Expanding Digital Capabilities:** Enhancing **digital banking services**, such as mobile banking, can help RRBs improve their performance and **attract tech-savvy employees** who value innovation and convenience.

What are the Regional Rural Banks?

- **About: The Narasimham committee on rural credit (1975) recommended the establishment of RRBs.**
  - RRBs were established in **1975 under the RRB Act, 1976,** to develop the rural **economy by providing credit and other facilities** to small and marginal farmers, agricultural laborers, **artisans, and small entrepreneurs**, thereby supporting agriculture, trade, commerce, and industry in rural and semi-urban areas.
    - RRBs operate in areas notified by the Government, covering one or more districts in a State.
      - They aimed to merge the local touch of cooperatives with the professionalism of commercial banks.
  - By March 2023, there were **43 RRBs sponsored by 12 scheduled commercial banks,** operating across 26 states and 3 Union Territories.
    - The **first RRB was Prathama Bank,** with its head office in Moradabad, Uttar Pradesh.
  - RRBs are owned by the **Central government, concerned State government and the sponsor bank in proportion of 50:15:35** (each RRB is sponsored by a particular bank).
  - In India, the **Reserve Bank of India (RBI)** oversees the entire banking system, while **NABARD** supervises rural financial institutions, including RRBs under the **Banking Regulation Act, 1949.**
- **Financial Performance: RRBs have shown significant improvement over the last three years. The total business of RRBs crossed Rs 10 lakh crore during FY23, growing at a rate of 10.1% year-on-year.**
  - As of March 2023, Gross **Non-Performing Assets (NPAs)** were at 7.28%, the lowest in seven years, while Net NPAs stood at approximately 3.2%.
  - RRBs recorded a highest-ever consolidated net profit of Rs 4,974 crore in FY22-23. In FY23-24, the net profit up to the third quarter was Rs 5,236 crore.
- **Challenges:**
  - **Asset Quality Maintenance:** Maintaining asset quality is a critical issue for RRBs, particularly as they work to expand credit and grow their portfolios in rural and semi-urban areas.
  - **Limited Digital Infrastructure**: RRBs often struggle with upgrading and maintaining digital banking services, especially in regions with poor connectivity, which can **hinder their ability to compete with larger banks.**
  - **Corporate Governance Issues:** Ensuring robust **corporate governance is an ongoing challenge,** with RRBs needing to improve their internal processes and compliance to maintain credibility and efficiency.
  - **Pressure to Increase Credit Penetration:** RRBs are under pressure to **increase their share in agriculture credit disbursement** and other priority sector lending, which requires careful balancing of resources and risks.
  - **Increased Competition:** The growing presence of private sector banks has intensified

competition, as these banks offer superior technology, more comprehensive services, and a more streamlined customer experience.

- **RRBs struggle to compete with the advanced resources** and infrastructure of private banks.
- Small finance banks have also increased **competition by offering specialised services and advanced technology,** further challenging the RRBs' ability to attract and retain customers.

- **Non-Performing Assets: The significant burden of NPAs has affected RRBs' financial health, leading them to focus on reducing these problematic loans rather than expanding their services.**

- **Opportunities to Boost RRBs Performance:**
  - **Review Operational Models:** Consider the **potential benefits and challenges of merging RRBs** with their **sponsor banks** to enhance efficiency.
    - Assess the impact of consolidation on service delivery and rural focus before making any decisions.
  - **Map RRBs with MSME Clusters:** Align RRB operations with **Micro, Small, and Medium Enterprises (MSMEs)** to enhance credit delivery and support local businesses.
    - Use MSME clusters to identify areas for expansion and tailored financial products.
    - Provide targeted financial products and services to MSMEs in rural areas, fostering entrepreneurship and economic growth.
  - **Expand Financial Inclusion Efforts**: Increase outreach and support for government schemes like **Pradhan Mantri MUDRA Yojana** **and** **PM Vishwakarma,** and improve the uptake of these programs in underdeveloped regions.
    - Actively promote and implement schemes like **PM Surya Ghar Muft Bijli Yojana** and **One District One Product (ODOP)** to support local development and increase credit penetration.
  - **Leverage CASA Ratio for Credit Growth**: Utilise the **healthy Current Account Savings Account (CASA) ratio** to extend more credit, particularly to underserved sectors like MSMEs and agriculture.
  - **Enhance Customer Engagement**: Improve customer relations through better **local connections and personalised services** to boost performance and customer satisfaction.
  - **Collaboration with Sponsor Banks**: Work closely with sponsor banks to gain **technical assistance, share best practices,** and access resources needed for growth and stability.
  - **Focus on Asset Quality**: Maintain and improve **asset quality by implementing effective risk management practices** and regular review of credit portfolios.

National Bank for Agriculture and Rural Development

- The RBI formed the **Committee to Review the Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD)** in 1979 to address the need for institutional credit in rural areas.
  - The committee's recommendations led to the creation of **NABARD,** which was established in 1982 under National Bank for Agriculture and Rural Development Act, 1981, by transferring **agricultural credit functions from RBI** and refinance functions from the **Agricultural Refinance and Development Corporation (ARDC).**
- NABARD envisions itself as the **"Development Bank of the Nation for Fostering Rural Prosperity,"** focusing on enhancing rural livelihoods and boosting the rural economy.
- **Milestone Achievements:**
  - **Self Help Group (SHG) Bank linkage (BL) Project:** Launched in 1992, this initiative has evolved into the **world's largest microfinance project,** significantly enhancing financial inclusion.
  - **Kisan Credit Card:** Designed by NABARD, it has become an essential financial tool for millions of farmers.
  - **Rural Infrastructure:** NABARD has financed approximately **one-fifth of India's total rural infrastructure.**

Drishti Mains Question:

Q. Examine the challenges faced by Regional Rural Banks in promoting financial inclusion in rural India. What steps can be taken to enhance their effectiveness?

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q. Which of the following grants/grant direct credit assistance to rural households? (2013)

1. Regional Rural Banks
2. National Bank for Agriculture and Rural Development
3. Land Development Banks

Select the correct answer using the codes given below:

(a) 1 and 2 only
(b) 2 only
(c) 1 and 3 only
(d) 1, 2 and 3

Ans: (c)