



# All India RRB Officers' Federation (AFFILIATED TO AIBOC)

Central Office: JGGP House, Raja Rammohan Roy Road, Hakimpara, Siliguri- 734001  
Tele-fax : 0353-2536449 General Secretary Mobile # 98008-66932  
Email : 555airrbof@gmail.com Visit us at: www.airrbof.org

Circular # 46:2017

21<sup>st</sup> June 2017

All Affiliates/ Members  
(Please re-circulate)

## **PREPARATORY MEET OF RRBS – 16<sup>TH</sup> JUNE, 2017 – AN ATTEMPT TO DILUTE THE IMPORTANCE OF RRBS AND ITS LIKELY DISINVESTMENT**

You may be aware that under the auspices of NABARD preparatory Meet of select Chairmen of RRBs and the Executives of Sponsor Banks took place on 16<sup>th</sup> June, 2017. NABARD further followed up the matter by a letter dated 20<sup>th</sup> June, 2017 advising all the participants to forward the issues raised in the Panel discussion held on 16.06.2017 latest by forenoon of 22<sup>nd</sup> June, 2017. The preparatory Meeting was presided over by Smt. Anjuly Chib Duggal and was participated by Chairman and Senior officials of NABARD.

It is gathered that the participants were divided into four groups summary of which is as follows:

### **Group I**

#### **Role of RRBs in the Next Decade:**

Moderator : Shri S.C Kalia; Ex-ED, Union Bank  
Group Members : Shri K. Sethi, Bank of India  
Shri S. Ganeshan, SBI  
Shri Ravi Kumar, PKGB  
Shri Sanjaya Nand, AGVB  
Shri Mithilesh Srivastava, BGVB

#### **Changing Rural Landscape:**

- Declining share of Agriculture in GDP
- Fragmentation of Landholding  
— Agriculture becoming unremunerative and risky
- Shift in Consumption pattern and life style - housing, FMCG, mobile, transportation
- Migration of villagers

#### **Need for Restructuring of RRBs:**

- Brick and Mortar not sustainable
- Need for hybrid/outlet model viz. USB etc.



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- Shift in sectoral demand/Shift from KCC to more of high tech and high value agriculture. Allied activities need to be taken up in a bigger way. Need for newer customized products
- Stiff competition from MFIs, payment and small banks; Alliance model may be worked out
- Leverage exposure to initiatives, ex. E-NAM, Producer Organizations, Food Parks etc.

## **Strengthening of RRBs:**

- Consolidation of RRBs into sustainable and viable size
- Framing a long term Capitalization Policy and Ownership structure
- Converting competition into Advantage - ART: Alliance, Relationship, Technology
- Common Technology Platform for all RRBs
- NABARD OFFICIAL as GM in every RRB

## **Challenges and Opportunities:**

- Size
- Geography
- Less diversified
- Technology

## **Questions?**

## **Group II**

### **Corporate Governance and Management of Emerging Roles in RRBs:**

#### **GROUP MEMBERS**

Mentor : Shri Raj Chatterjee

Members : Shri Ravindra Bhanderey  
Shri R. K. Gupta  
Shri C. B. Sawant  
Shri Sanjay Kumar  
Shri N. Ravichandran  
Shri I. M. Utreja



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## **Governance Architecture:**

### **Present Architecture**

- DFS, RBI, NABARD, Sponsor Banks, State Govt.

### **Suggestion**

- As GOI., Sponsor Banks and State Govt., are well represented in the Board, they should play a significant role in framing the Governance Architecture within the broad guidelines framed by DFS, RBI and NABARD.

## **Constitution:**

### **Present Constitution**

- One Each from RBI, NABARD
- Two from Sponsor Banks
- Two from State Govt.
- Two Independent Directors, apart from Chairman
- Two independent Directors should be Reputed Professional

### **Proposed Constitution**

- One each from RBI, NABARD
- Sponsor Bank One Professional/Experienced and Another Senior Executive from Head Office (equal or lesser rank of Chairman)
- Two from State Govt. from State Administration, Not from District Administration
- Two independent Directors should be Reputed Professional

## **Accountability:**

1. More loaded towards Chairman and Bank Management
2. Board should frame clear policies, robust implementation process and compliance systems to monitor.

## **Selection:**

### **Present**

- Chairman and GMs from Sponsor Banks

### **Suggestions**

- Chairman need not be only from Sponsor Bank. Selection can be more broad-based.
- GMs can be both from Sponsor Banks and Homegrown.



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## Reorganisation:

- Smaller and weaker, not viable can be consolidated
- Banks that are functioning well should be allowed continue
- Bigger States should be permitted to have multiple RRBs However, there are divergent views on inevitability consolidation, like one State-one RRB.

## Shareholding:

- Going public can be considered at fair value
- Strategic divestment to select Institutional Investors can be considered

## Way Forward for RRBs:

- Financially Strong RRBs
- Able to Face the Competition
- Right Personnel; Right Technology; Enough Capital

## Group III

### Effective Technology Management & FI:

<b>Group Moderator :</b>	Mr. Subodh Koushik, Advisor, PNB
<b>Facilitator :</b>	Mr. Niraj Kumar Verma, GM, NABARD Mr. Ravi Krishnan, M. K. (Kerala Gramin Bank) Mr. D.P. Gupta (Baroda UP Gramin Bank) Mr. M.P. Singh (Sarva Haryana Gramin Bank) Mr. Akhilesh Garg (Punjab National Bank) Mr. B. S. Sekhawat (Central Bank of India) Mr. Parvindar Pal Singh (United Bank of India)

### Issues:

- Upgrading the CBS
- Regulatory Restriction –BHIM & UPI
- CRM and Enterprise Wide Data Warehouse for meaningful MIS and regulatory Reporting
- Asset verification through BC: Use of Technology

### Issues Contd.:

- UIDAI/NPCI Fee
- Direct Merchant Acquisition
- Cyber Security and Fraud Risk Management
- Connectivity In Remote Areas
- Credit Card Issuance



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## Suggested Solutions:

- The Core banking has to be upgraded with changing time & emerging demand on system.
- Sharing Resources through sponsor bank/IT subsidiary for Risk Management, Cyber Security, CRM & Innovation, Resource Pooling and Utilization
- Geotagging & Use of Whatsapp etc. : Regulatory Approval
- Taking up the issue with RBI and UIDAI- Time bound Approvals
- Govt. to consider Subsidization for Merchant Acquiring

## Suggested Solutions Contd.:

- Credit History through Aadhaar base
- Use of Robust Tools for IT Management
- Establishment of Enterprise wide Data Warehouse & its use for MIS, CRM & Regulatory Reporting.
- Use of Mobile Banking & Internet less Mobile banking.
- Co-branded Credit cards with Sponsor Banks.

## Group IV

### RRB- Asset Quality-Product Diversification and Risk Management

#### Business Mix:

- Own found 6.42%
- Borrowing 11.32% : 0.80%
- Deposits 74.10% : 4.90%
- Loans 49% : 6.00%
- Investments 40%: 2.80%.....NIM 2.1%
- Other assets including Cash and CRR 11%
- Agri and SME loans account for 85% of loans. (43% of TA): the ROI will come down
- Priority sector dominates.
- Deposits 2.84% CA, 47.21% SB, 49.94% TD. (TD ROI 7.5%)
- ROA 0.48%
- ROA (PT) 0.34
- ROE 5.29%



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## Basic Factors:

- Average ROI: 9.0%
- NPA Gross: 6.81%
- Loans on which income is recognized: 93.19
- Interest Income =  $93.19 \times 9\%$ : 8.39
- Provisioning: 0.50
- Interest income: 7.89
- Yield on loans = 7.89
- Impact of NPA =  $0.612 + 0.50 = 1.112$

## Conclusions: Asset Quality:

- Default has reason beyond distress. Waiver vitiates atmosphere
- Waiver – from the farmers perspective is not sufficient as it does not cover full loss but merely the bank loan
- Waiver impacts other loans as well
- NPA norms are rigid and do not recognise business cycle realities temporary cash flow events
- Crop insurance is not as effective as it should be.
- There are no price risk management tools
- Mudra loans are also effected. 50% guarantee is not enough

## Suggestions

- Waiver should cover full loss
- Crop insurance should be made more effective
- NPA norms should have discretionary leeway for small loans, msme loans
- Infrastructure and market access issues if sorted will improve asset quality

## Diversification:

- RRBs focus on agri is due to historical reasons. Is being slowly changed
- Priority norms are wide enough
- Mudra guarantee is only 50%. This could be enhanced
- Produce Pledge loans are being encouraged
- Agri credit could be reduced in terms of %.
- Affordable housing is a product that can be taken up
- Forex was suggested by one but will have more regulatory implications
- Investment also needs diversification. Deposits are not attractive. Other investments are there but not enough expertise. Non- SLR cap to be increased. Heavy dependence on sponsor banks- needs to reduce.





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- Training is important.
- Branch staff not well experienced and therefore
  - Productisation of new areas is important
  - Score card based appraisal should be used so that branch will feel comfortable
  - Centralised sanction - application to be collected by branches- centralised sanction- branch distribution may *be* followed
  - Process simplification will help in diversification

## **Risk:**

- Presently there is no risk management but only compliance
- NPA norms being very inflexible causes credit risk.
- ALM is perfunctory
- Operational risk is evident- Information Security need more attention and specialist skills-other operational risk is also seen. Currently it is not getting focus- need to be emphasised. CRAR for op risk may be considered so as to emphasis its importance.
- Capital will be a constraint in future as the current earnings are insufficient for future needs.
- CRAR should be 15% on par with SSFB. This should be initially part of recap of RRB.
- Doubtful if RRB shares will be attractive for IPO.
- Credit Risk- Involve BC's for recovery- focused attention on recovery- NPA data should come from system.
- Recently SEBI has announced commodity derivatives for agri. This could be taken up for developing bank-market related instruments.

It seems from the aforesaid information that an attempt is being made to dilute the functioning of RRBs and disinvest its equity in the private hands in the guise of development of RRBs.

We are very concerned from the above approach as the greatest stake holders in the RRBs i.e. the Trade Union of officers and employees have not been taken into confidence or consulted. We are lodging our strong protest in the matter which we separately circulate.

With greetings,

  
(S.K. Bhattacharjee)  
GENERAL SECRETARY