National Research Journal of Banking and Finance Management
Volume No: 12, Issue No: 1, Year: 2025 (January-June)
PP: 106-113

ISSN No: 2349-6762
Peer Reviewed & Refereed Journal (IF: 7.56)
Journal Website www.nrjbfm.in

A STUDY ON AMALGAMATION OF REGIONAL RURAL BANKS IN INDIAN BANKING SECTOR

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ABSTRACT

Regional Rural Banks (RRBs) are in existence for more than five decades in Indian economy. A large number of RRBs were established to ensure balanced distribution of financial products in rural regions of the country. However, it adversely affected the viability of RRBs. In compliance with recommendation of Vyas Committee (2004), Government of India reduced the number of RRBs in a phased manner from196 to 43 as on 31st March 2025. The fourth phase of amalgamation will become operational from 1st May 2025 in which 26 RRBs are proposed to be amalgamated in order to achieve the goal of "One Nation One RRB". There is need to review the amalgamation of RRBs since states with large geographical area and dominant rural population may be adversely affected.

Keywords: Regional Rural Bank, Amalgamation, Economy, Gramin, Committee

INTRODUCTION

Government-owned scheduled commercial banks that function at the regional level in Indian states are called Regional Rural Banks (RRBs). These are referred to as Gramin Banks. They were founded to meet the financial requirements of rural communities, especially those of small and marginal farmers, agricultural workers, craftspeople, and small business owners. The establishment of RRBs in India dates back to 1975, following the recommendations of the Narasimham Committee on Rural Credit. The Regional Rural Banks Ordinance was promulgated on September 26, 1975, and subsequently, the Regional Rural Banks Act was passed in 1976. The primary objective was to create financial institutions that were closer to the rural population and better understood their needs compared to commercial banks. RRBs have a unique ownership structure in which central government, sponsor bank and respective state government shares the paid up capital in the ratio 50:35:15. Combining two or more banking organizations into one larger organization is known as a bank amalgamation. This procedure can be carried out by an acquisition, in which one bank buys another, or by a merger, in which two or more banks unite to form a new organization.

OBJECTIVES OF AMALGAMATION

Amalgamation is a tool in the hands of policymakers to expend or condense the scope of operations of banking units. Major objectives of amalgamation in banking industry may be summarised below,

1. Consolidation and Strengthening: To establish bigger, more resilient banks that are better equipped to handle financial crises and compete on a worldwide scale.
2. Improved Financial Stability: By combining stronger and weaker banks, the former can become more stable, averting possible failures and safeguarding the interests of

depositors. The combined entity's greater capital base can better withstand financial shocks and satisfy legal requirements such as Basel III standards.

3. Economies of Scale and Cost Efficiency: Amalgamation makes it possible to share technology infrastructure, rationalize branch networks and consolidate back-office processes. Significant cost savings and increased operational effectiveness result from this.
4. Increased Lending Capacity: The new organization's increased capital base from the merger allows it to finance larger infrastructure projects and take on greater credit exposures, which promotes economic growth.
5. Increased Diversification and Market Reach: By combining banks with complementary geographic locations, the combined entity can reach new markets and clientele. Business risks can also be decreased by diversifying operations and product offerings.
6. Global Competitiveness: The goal of building banks of a large size and scope is to enable Indian banks to compete on a worldwide basis and take part in global financial markets.
7. Technological Developments: By enabling the use of cutting-edge digital banking systems and the pooling of technological resources, amalgamation can boost operational effectiveness and customer service.

ADVISORY COMMITTEE ON FLOW OF CREDIT TO AGRICULTURE AND RELATED ACTIVITIES FROM THE BANKING SYSTEM

The Reserve Bank of India (RBI) formed the *Advisory Committee on the Flow of Credit to Agriculture and Related Activities from the Banking System*, which was chaired by Prof. V.S. Vyas. Examining and advising on the flow of credit from the banking system to the agriculture sector was the committee's main goal. In its report, which was presented in June 2004, the committee made suggestions on a number of topics related to agricultural financing, microfinance and the functions of Regional Rural Banks (RRBs). Committee revealed following reasons for slow progress of RRBs,

1. Limited area of operations of RRBs and their narrow client base.
2. Inappropriate and inadequate training of their staff.
3. High transaction cost caused in part by a large number of small accounts.
4. Lack of professionalism in management.
5. Ineffective boards of directors, since government/sponsor bank still retain most decision-making powers.

The Committee has recommended following measures to make RRBs more viable;

ISSN No: 2349-6762
Peer Reviewed & Refereed Journal (IF: 7.56)
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1. RRBs have an important role to play, particularly because of their strong rural branch infrastructure and rural orientation of their staff, the current low share of RRBs in agriculture credit notwithstanding. The Committee, therefore, feels that the mandate of RRBs has to continue, even as they need to be restructured into viable financial institutions.
2. The Committee has not considered the option of merger with the sponsor bank, as it would go against the rationale of the third channel for rural credit with a clear rural focus and regional orientation.
3. The Committee believes that two different models need to be applied. It recommends a zonal bank for RRBs in the North-East and rural banks at state level for the rest of the country.
4. The Committee recommends that all the RRBs in the North-Eastern states be merged into a zonal bank. This bank will work on stand-alone basis. Its equity would be held by NABARD, State Bank of India and United Bank of India.
5. The Committee recommends a two-step reorganisation of RRBs for the rest of the country. As a first step, all RRBs of a sponsor bank in a state would be amalgamated into a single unit in that state. There could be more than one amalgamated RRB at the state level depending upon the number of sponsor banks in the state.
6. Loss-making RRBs (post amalgamation), if any, may be given a reasonable time frame to turn around with a clear understanding that they may not be allowed to continue the business thereafter. The first stage of reorganisation will reduce the number of RRBs to 74 from 196.
7. The Committee recommends that the state/zonal RRBs may be permitted to seek cheaper funds through issue of Certificates of Deposit.
8. The income tax exemption granted to RRBs may be continued to the newly formed state/zonal RRBs, since they would be deploying 60 per cent of their advances to the priority sector as is applicable now.
9. The Committee recommends that RRBs Act 1976 may be repealed and replaced by a new Act, with suitable provisions for functional autonomy to the restructured RRBs and professionalization of management and boards of directors.

AMALGAMATION OF REGIONAL RURAL BANKS

Narasimaham Committee, Khusroo Committee, Purwar Committee and Vyas Committee recommended amalgamation of RRBs. Amalgamation was an attempt by government to enlarge the area of operation of RRBs to make the loss making RRBs more viable. The first phase of amalgamation was initiated in the year 2004-05 within same sponsor bank within a state. At the end of this phase, total number of RRBs had reduced to 82 from 196. The second phase of amalgamation took place in the year 2011-12 across sponsor banks within a state. Because of this initiative, number of RRBs declined to 56 from 82. Third phase of amalgamation commenced in the year 2018-19. At the end of this phase number of RRBs came down to 43 from 56 across 26 state and 2 UTs. The Fourth phase of amalgamation has

ISSN No: 2349-6762
Peer Reviewed & Refereed Journal (IF: 7.56)
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been notified by Department of Financial Services on 7th April 2025. Based on the principle of "One Nation One RRB" amalgamation of 26 RRBs in 10 States and 1 UT have been proposed with primary focus on improvement in scale efficiency and cost rationalization. Post amalgamation, there will be 28 RRBs in 26 states and 2 UTs with more than 22000 branches covering 700 districts. Their predominant area of operation is in rural areas with approx. 92 percent of branches in rural/semi urban areas.

Table 1.1: Active Regional Rural Banks as on 31st March 2025

Sl no.	Regional Rural Bank	Sponsor Bank	State
1	Andhra Pragathi Grameena Bank	Canara Bank	Andhra Pradesh
2	Chaitanya Godavari Grameena Bank	Union Bank of India	Andhra Pradesh
3	Saptagiri Grameena Bank	Indian Bank	Andhra Pradesh
4	Andhra Pradesh Grameena Vikas Bank	State Bank of India	Andhra Pradesh
5	Arunachal Pradesh Rural Bank	State Bank of India	Arunachal Pradesh
6	Assam Gramin Vikash Bank	Punjab National Bank	Assam
7	Dakshin Bihar Gramin Bank	Punjab National Bank	Bihar
8	Uttar Bihar Gramin Bank	Central Bank of India	Bihar
9	Chhattisgarh Rajya Gramin Bank	State Bank of India	Chhattisgarh
10	Baroda Gujarat Gramin Bank	Bank of Baroda	Gujarat
11	Saurashtra Gramin Bank	State Bank of India	Gujarat
12	Sarva Haryana Gramin Bank	Punjab National Bank	Haryana
13	Himachal Pradesh Gramin Bank	Punjab National Bank	Himachal Pradesh
14	Ellaquai Dehati Bank	State Bank of India	Jammu & Kashmir
15	J&K Grameen Bank	J&K Bank Ltd.	Jammu & Kashmir
16	Jharkhand Rajya Gramin Bank	State Bank of India	Jharkhand
17	Karnataka Gramin Bank	Canara Bank	Karnataka
18	Karnataka Vikas Grameena Bank	Canara Bank	Karnataka
19	Kerala Gramin Bank	Canara Bank	Kerala
20	Madhya Pradesh Gramin Bank	Bank of India	Madhya Pradesh
21	Madhyanchal Gramin Bank	State Bank of India	Madhya Pradesh
22	Maharashtra Gramin Bank	Bank of Maharashtra	Maharashtra
23	Vidharbha Konkan Gramin Bank	Bank of India	Maharashtra
24	Manipur Rural Bank	Punjab National Bank	Manipur
25	Meghalaya Rural Bank	State Bank of India	Meghalaya
26	Mizoram Rural Bank	State Bank of India	Mizoram
27	Nagaland Rural Bank	State Bank of India	Nagaland
28	Odisha Gramya Bank	Indian Overseas Bank	Odisha
29	Utkal Grameen Bank	State Bank of India	Odisha
30	Puduvai Bharthiar Grama Bank	Indian Bank	Puducherry
31	Punjab Gramin Bank	Punjab National Bank	Punjab
32	Baroda Rajasthan Kshetriya	Bank of Baroda	Rajasthan

	Gramin Bank		
33	Rajasthan Marudhara Gramin Bank	State Bank of India	Rajasthan
34	Tamil Nadu Grama Bank	Indian Bank	Tamil Nadu
35	Telangana Grameena Bank	State Bank of India	Telangana
36	Tripura Gramin Bank	Punjab National Bank	Tripura
37	Aryavart Bank	Bank of India	Uttar Pradesh
38	Baroda UP Bank	Bank of Baroda	Uttar Pradesh
39	Prathama UP Gramin Bank	Punjab National Bank	Uttar Pradesh
40	Uttarakhand Gramin Bank	State Bank of India	Uttarakhand
41	Bangiya Gramin Vikash Bank	Punjab National Bank	West Bengal
42	Paschim Banga Gramin Bank	UCO Bank	West Bengal
43	Uttar Banga Kshetriya Gramin Bank	Central Bank of India	West Bengal

Source: Department of Financial Services, Government of India

Uttar Pradesh, West Bengal and Andhra Pradesh has maximum number of RRBs. State Bank of India has sponsored maximum number of 13 RRBs. The fourth phase of amalgamation will become operational from 1st May 2025. The proposed merger of RRBs is,

Table 1.2: Proposed Merger of RRBs

Sl No.	Name of RRB	State	Sponsor Bank	Merged Entity	Sponsor Bank	Headquarter
1	Andhra Pragathi Grameena Bank	Andhra Pradesh	Canara Bank	Andhra Pradesh Grameena Bank	Union Bank of India	Amravati
2	Chaitanya Godavari Grameena Bank		Union Bank of India			
3	Saptagiri Grameena Bank		Indian Bank			
4	Andhra Pradesh Grameena Vikas Bank		State Bank of India			
5	Dakshin Bihar Gramin Bank	Bihar	Punjab National Bank	Bihar Gramin Bank	Punjab National Bank	Patna
6	Uttar Bihar Gramin Bank		Central Bank of India			
7	Baroda Gujarat	Gujarat	Bank of Baroda	Gujarat Gramin	Bank of Baroda	Vadodara

ISSN No: 2349-6762
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	Gramin Bank			Bank		
8	Saurashtra Gramin Bank		State Bank of India			
9	Karnataka Vikas Grameena Bank	Karnataka	Canara Bank	Karnataka Grameena Bank	Canara Bank	Ballari
10	Karnataka Gramin Bank		Canara Bank			
11	Madhya Pradesh Gramin Bank	Madhya Pradesh	Bank of India	Madhya Pradesh Gramin Bank	Bank of India	Indore
12	Madhyanchal Gramin Bank		State Bank of India			
13	Maharashtra Gramin Bank	Maharashtra	Bank of Maharashtra	Maharashtra Gramin Bank	Bank of Maharashtra	Chhatrapati Sambhaji Nagar
14	Vidharbha Konkan Gramin Bank		Bank of India			
15	Odisha Gramya Bank	Odisha	Indian Overseas Bank	Odisha Grameen Bank	Indian Overseas Bank	Bhubaneswar
16	Utkal Grameen Bank		State Bank of India			
17	Rajasthan Marudhara Gramin Bank	Rajasthan	State Bank of India	Rajasthan Gramin Bank	State Bank of India	Jaipur
18	Baroda Rajasthan Kshetriya Gramin Bank		Bank of Baroda			
19	Baroda U.P. Bank	Uttar Pradesh	Bank of Baroda	Uttar Pradesh Gramin Bank	Bank of Baroda	Lucknow
20	Aryavart Bank		Bank of India			
21	Prathama U.P. Gramin Bank		Punjab National Bank			
22	Bangiya Gramin Vikash	West Bengal	Punjab National Bank	West Bengal Gramin Bank.	Punjab National Bank	Kolkata
23	Paschim Banga Gramin Bank		UCO Bank			
24	Uttarbanga Kshetriya Gramin		Central Bank of India			

ISSN No: 2349-6762
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	Bank,					
25	J & K Grameen Bank	Jammu & Kashmir	Jammu and Kashmir Bank Ltd	Jammu and Kashmir Grameen Bank	The Jammu and Kashmir Bank Ltd	Jammu
26	Ellaquai Dehati Bank		State Bank of India			

Source: Department of Financial Services, Government of India

CONCLUSIONS AND RECOMMENDATIONS

Amalgamation of Regional Rural Banks is an ambitious step by government of India to ensure equitable distribution of credit in rural regions of the country. It is being performed in a phased manner to ensure effective implementation of the policy. Each state will have one RRB after fourth phase of amalgamation on the principle of One Nation One RRB; however, states with large geographical area and huge rural population such as Uttar Pradesh, West Bengal, and Rajasthan may suffer due to large operational area of one RRB. Sponsor Banks may be overburdened due to large operational area of RRBs. It is recommended to establish two RRBs in such states where rural population dominates. Bank Correspondents may play vital role in financial inclusion since it is not viable to open bricks and mortar branches at each village.

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