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Merger of regional rural banks within same state likely

BY [DHEERAJ TIWARI](#), ET BUREAU | UPDATED: FEB 27, 2019, 07.01 AM IST

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New Delhi: The government is looking at the possibility of merging regional rural banks (RRBs) operating within the same state and has urged the state-owned banks to explore such options, as it wants further consolidation among RRBs. It eventually wants to bring them down to a more manageable number of 10-15.

There are 56 RRBs functioning in the country, and [State Bank of India](#), the largest bank, is the biggest sponsor with 14 RRBs. Already, around 10 have been merged which will be effective from April 1 this year.

"Ideally, we will like to have them reduced by 36 by the end of this fiscal," said a senior government official, adding the idea is that rather than three or four regional lenders operating in a state, there should be one bank which leverages its strong regional and market connect.

"In some lead banks which have more presence in a particular area, they can take over the stake of another lender in an [RRB](#) for purposes of synergy and efficiencies," he said.

At present, the Centre holds 50% stake in RRBs, while 35% and 15% are with the sponsor banks and state governments, respectively.

In 2015, the government had passed the Regional Rural Banks (Amendment) Bill, which seeks to enhance authorised and issued capital of RRBs, strengthen their capital base and bring flexibility in the shareholding between central government, state government and sponsor bank.

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Around 10 RRBs have been merged which will be effective from Apr 1 this year

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Shareholding Pattern of RRBs



The finance ministry has already directed public sector banks (PSBs) to consolidate operations in the same geography and take into account operations of other state-run lenders. "Bank boards have been asked to draw up business unit-wise approved plans, closure of nonviable branches," said the above quoted official.

"Further, strengthening RRBs will help them play a greater role in [financial inclusion](#) and meeting credit requirements of rural areas," the above quoted official said.

The government in the past few years have been trying to consolidate RRBs. Earlier in January, three regional rural banks (RRBs) — Punjab Gramin Bank, Malwa Gramin Bank and Sutlej Gramin Bank — were merged into a single entity.

In February, it approved merger of two RRBs in Karnataka — Kaveri Grameena Bank and Pragathi Krishna Grameena Bank. [Canara Bank](#) will be the sponsor bank for the merged entity.

Last week, finance minister Arun Jaitley had called for further consolidation of India's banking industry, saying the country needs fewer,

stronger mega lenders to exploit economies of scale. "I think India needs fewer and mega banks which are strong because in every sense, from borrowing rates to optimum utilisation, the economies of scale as far as the banking sector is concerned are of great help," he had said.

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