

## **An Analysis of Operating Expenses in Regional Rural Banks (A CASE STUDY OF SARVA HARYANA GRAMIN BANK)**

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### **Introduction:-**

In India, since the beginning of the planning era, main policies have been, to streamline and strengthen rural economy and uplift the living standard of rural people. Many development programmes have been implemented for this purpose. First Community Development Programme which was directly related to this objective started in 1952. After this many programme were started and of these mainly are Intensive Agriculture District Programme, Rural Industries Project Programme, Desert Area Development Programme, 20 Points Economic Programme and JawaharRojgarYojana, etc.

When Commercial Banks and Co-operative Banks deficient in filling the gap of requirement and availability of credit in rural area on account of facing high running cost, on recommendation of The Narasimham Committee, a process was started in 1975 to setup Regional Rural Banks. On 26 September 1975 an act namely Regional Rural Banks Act 1975 was passed and initially five Regional Rural Banks were established on 2<sup>nd</sup> October 1975. Out of these five banks, one Haryana KshetriyaGramin Bank was started in Bhiwani, Haryana after this three more banks, Gurgaon Gramin Bank, Hissar-SirsaKshetriyaGramin bank and Ambala-KuruksheetraGramin Bank were also started in Haryana.

In year 1989, The Agricultural Credit Review Committee (Khusro Committee) made a recommendation of amalgamation of Regional Rural Banks with their respective Sponsor Banks. The first phase was 2004-05 when Regional Rural Banks were amalgamated with their respective sponsor banks. And in second phase that started in 2011-12 when geographical amalgamation was done within a state, cross the sponsor bank.

On 21 December 2005, Haryana HaryanaKshetriyaGramin Bank,Hissar-SirsaKshetriyaGraminba and Ambala-Kurukshetra Gramin Bank were amalgamated in first phase; all these were sponsored by Punjab National Banks and a new bank Haryana Gramin Bank came in to existence. In second phase on 29 Nov 2013, Haryana Gramin Bank and GrugaonGraminBank were amalgamated and new bank Sarva Haryana Gramin Bank came in to existence. Since then this bank is bank is covering all 22 districts of Haryana with its 654 branches.

So it is the right time to study on operating expenses of SHGB because after amalgamation it has completed 9 years and it is very important to know how the bank is doing specially with operating expense.

### **Review of Literature:-**

Varsha.S.Varde and Sampat Singh conducted a study “Profitability and Performance of RRBs” and in their study, they concluded that from year 1978 to 1980 profitability of RRBs increased but manpower profitability declined.

In year 1986, a working group conducted a study on RRBs and concluded that these banks are suitable for financing the weaker section, but, many factors were highlighted by The group for poor financing.

In year 1988, Naidu also conducted a study on RRBs in Cuddaph District of Andhra Pradesh and found that beneficiaries were profited with help of Bank’s loan and beneficiaries income level also increased.

In Haryana a study was conducted by Rajkumar on the topic “Growth and Performamnce of RRBs in Haryana” and found that deposits and advances were increasing, but, there is need to increase share capital.

In year 1988, a study was conducted by RBI under the chairmanship of Prof. M.H. Dantwala to review the working of RRBs in the light of objectives for which they were set up. Committee found that RRBs are backbone of rural credit and they should be supported further to achieve objectives.

In another study “Indian regional rural bank growth and performance”Ghouse and Reddy found that these banks are playing a vital role in agricultural and rural

development of India. They further concluded financial position of RRBs is increasing year to year.

In year 2008,Jasvir.S.Sura in his study concluded that overall financial position of RRBs is not encouraging. Further they concluded that these banks were opened for poor people living in rural areas and there is need to spread branches in rural areas to reach these people.

A study in year 2012 on the topic “Financial performance evaluation of RRB’S in India” was conducted by Kanika Karishna and Nancy Sahani and they concluded that there is a positive impact on financial positions of these banks after amalgamation and other factors.

#### Scope of the Study:-

RRBs were merged with the purpose to improve their financial position and operating system. It is right time to know after nine years where these banks stand in fulfilling these objectives.

#### Research Design:-

This study is descriptive in nature and secondary data is collected from published annual reports of Sarva Haryana Gramin Bank, NABARD and RBI. Last five years’ data (2018 to 2022) is taken to better understand operating position of The Bank.


#### Objectives of the Study:-

- Which Types of operating expenses are highest in amount in total operating expenses?
- Which operating expenses have increased and which have decreased in last five years?
- What improvement RRBs can do in lowering down the operating expenses?
- After amalgamation of Regional Rural Banks how did the operating systems change?

Hypothesis:- Alternate hypothesis is taken that The Sarva Haryana Gramin Bank has improved in operation after amalgamation in year 2013.

Operating Expenses Year Wise											
Year	2018		2019		2020		2021		2022		
Operating Expenses	Amount in Lakh Rupees	Percentages to Total	Amount in Lakh Rupees	Percentages to Total	Amount in Lakh Rupees	Percentage s to Total	Amount in Lakh Rupees	Percentage s to Total	Amount in Lakh Rupees	Percentages to Total	Change In Percentage
Payment to and Provision for Employees	20523	68	25444	70	46205	79	52062	77	64095	77	14
Renta, Taxes and Lighting	1719	6	1960	5	1920	3	2026	3	2000	2	-57
Printing and Stationery	422	1	266	1	194	0	213	0	346	0	-70
Advertisement and Publicity	38	0	26	0	21	0	9	0	15	0	-86
Depreciation on bank property	994	3	1004	3	1139	2	1032	2	919	1	-66
Drirectors' fees allowances and expenses	0.41	0	0.39	0	0.46	0	0.05	0	0.25	0	-78
Auditor Fees and Expenses	57	0	70	0	74	0	75	0	58	0	-63
Law charges	135	0	468	1	1156	2	1066	2	642	1	74
Postage, telegram, telephone etc	726	2	732	2	236	0	186	0	313	0	-84
Repaire and Maintenance	141	0	136	0	155	0	137	0	102	0	-74
Insurance	1393	5	1585	4	1761	3	2256	3	2992	4	-21
Other Expenditure	4164	14	4480	12	5946	10	8542	13	11276	14	-1
<b>Total</b>	<b>30312</b>	<b>100</b>	<b>36171</b>		<b>58807</b>	<b>100</b>	<b>67604</b>	<b>100</b>	<b>82758</b>	<b>100</b>	
Source of Data:- Financial Statements of SHGB											

**Table No. 1**

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## Analysis and Interpretation:-

**Table No 1** shows that how the operation expenses of SHGB change in last five years in comparison to total operating expenses. Operating expenses related to employees (Payment to and Provision for Employees) increased from Rupees 20523 Lakhs to 64095 Lakhs Rupees, and it is 68 percentage of total expenditure and now it has increased to 77 per cent in comparison of total expenditure of operating expenses. It is a matter of concern for bank because numbers of employees havenot increased in same manner in this period. Law charges have also increased in comparison to total Operating expenses in last five years by 74 percentages and it is big concern for the Bank. Operating Expenses under head Insurance in comparison to total expenditure decreased by 21 per cent. Combination of all other operating expenses under head Other Expenditure decreased in comparison to total expenditures by 1 percent. Other all expenses in comparison to total expenditure decreased like Advertisement and Publicity by decreased by 86 percent, Postage and telegram by 84 per cent, Repair and Maintenance by 74 per cent, Printing and Stationery by 70 per cent, Depreciation on Bank Property by 66 percent, Auditor's Fees and expenses by 63 per cent and other expenses by 1 percent.

**Table below 2** explicit the comparison of Operating Expenses and total Income and it is clearly explaining that in year 2018 Payment to and Provision for Employees expenses are 14.88 per cent of total income and these increased to 32.55 per cent in year 2022, it should be controlled by bank. In case of insurance expenses, it increased from 1.01 to 1.52 in percentage to total income in last five years. Other Expenditures also increased three times in percentage in last five year in comparison of total income. Legal charges are not too high in comparison to total income but still increased almost 3times in last five years. Not classified i.e. other expenditure increased from 3.02 per cent to 5.73 per cent of total income and bank should take some effective steps to control these and classify these so it becomes easy to control these. All operating expenses in comparison to total income increase year by year from 21.97 per cent in year 2018 and 42.03 are in year 2022. A consequence of all these is that The Bank was in loss in year 2018-2019.

Operating Expenses Year Wise In Comparison of Total Income										
Year	2018		2019		2020		2021		2022	
Operating Expenses	Amount in Lakh	Percentage to Total	Amount in Lakh	Percentage to Total Income	Amount in Lakh	Percentage to Total	Amount in Lakh	Percentage to Total	Amount in Lakh	Percentage to Total
Payment to and Provision for Employees	20523	14.88	25444	17.82	46205	29.04	52062	27.67	64095	32.55
Renta, Taxes and Lighting	1719	1.25	1960	1.37	1920	1.21	2026	1.08	2000	1.02
Printing and Stationery	422	0.31	266	0.19	194	0.12	213	0.11	346	0.18
Advertisement and Publicity	38	0.03	26	0.02	21	0.01	9	0.00	15	0.01
Depreciation on bank property	994	0.72	1004	0.70	1139	0.72	1032	0.55	919	0.47
Drirectors' fees allowances and expenses	0.41	0.00	0.39	0.00	0.46	0.00	0.05	0.00	0.25	0.00
Auditor Fees and Expenses	57	0.04	70	0.05	74	0.05	75	0.04	58	0.03
Law charges	135	0.10	468	0.33	1156	0.73	1066	0.57	642	0.33
Postage, telegram, telephone etc	726	0.53	732	0.51	236	0.15	186	0.10	313	0.16
Repaire and Maintenance	141	0.10	136	0.10	155	0.10	137	0.07	102	0.05
Insurance	1393	1.01	1585	1.11	1761	1.11	2256	1.20	2992	1.52
Other Expenditure	4164	3.02	4480	3.14	5946	3.74	8542	4.54	11276	5.73
<b>Total Income</b>	<b>137945</b>	<b>21.97</b>	<b>142795</b>	<b>25.33</b>	<b>159092</b>	<b>36.96</b>	<b>188138</b>	<b>35.93</b>	<b>196922</b>	<b>42.03</b>
Source of Data:- Financial Statements of SHGB										

Table No. 2


**Dr.Anand Prakash (September 2022). An Analysis of Operating Expenses in Regional Rural Banks  
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<b>Operating Expenses Per Branch Wise</b>																	
Year	2018			2019			2020			2021			2022				
Operating Expenses	Amount in Lakh Rupees	No. of Branches	Average	Amount in Lakh Rupees	No. of Branches	Average	Amount in Lakh Rupees	No. of Branches	Average	Amount in Lakh Rupees	No. of Branches	Average	Amount in Lakh Rupees	No. of Branches	Average	Over all Average	Change in Avearge in Percentage
Payment to and Provision for	20523	653	31.43	25444	654	38.91	46205	654	70.65	52062	654	79.61	64095	654	98.00	63.72	212
Renta, Taxes and Lighting	1719	653	2.63	1960	654	3.00	1920	654	2.94	2026	654	3.10	2000	654	3.06	2.94	16
Printing and Stationery	422	653	0.65	266	654	0.41	194	654	0.30	213	654	0.33	346	654	0.53	0.44	-18
Advertisement and Publicity	38	653	0.06	26	654	0.04	21	654	0.03	9	654	0.01	15	654	0.02	0.03	-61
Depreciation on bank property	994	653	1.52	1003	654	1.53	1139	654	1.74	1032	654	1.58	919	654	1.41	1.56	-8
Drirectors' fees allowances and	0.41	653	0.00	0.39	654	0.00	0.46	654	0.00	0.05	654	0.00	0.25	654	0.00	0.00	-39
Auditor Fees and Expenses	57	653	0.09	70	654	0.11	74	654	0.11	75	654	0.11	58	654	0.09	0.10	2
Law charges	135	653	0.21	468	654	0.72	1156	654	1.77	1066	654	1.63	642	654	0.98	1.06	375
Postage, Telegram, Telephone etc	726	653	1.11	732	654	1.12	236	654	0.36	186	654	0.28	313	654	0.48	0.67	-57
Repaire and Maintenance	141	653	0.22	136	654	0.21	155	654	0.24	137	654	0.21	102	654	0.16	0.21	-28
Insurance	1393	653	2.13	1585	654	2.42	1761	654	2.69	2256	654	3.45	2992	654	4.57	3.05	114
Other Expenditure	4164	653	6.38	4480	654	6.85	5946	654	9.09	8542	654	13.06	11276	654	17.24	10.52	170

**Table 3 Source of Data:-Financial Statements of SHGB**

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**Table 3** above shows the operating expenses branch wise in last five years. In last five years only one new branch has been opened by the bank but other side employees' expenses increased from 31.43 lakhs per branch to 63.72 lakhs per year per branch. Slight increase is shown in Rent, Taxes and Lighting from 2.63 lakhs per branch to 3.06 per branch in last five years. Increase in Insurance and Other Expenditure is seen per branch from 2.13 lakhs and 6.38 lakhs to 4.57 lakhs and 10.52 lakhs per branch respectively. Law charges also increased 3.75 times branch wise in last five years. Operating Expenses related to Printing and Stationery, Advertisement and Publicity, Depreciation on bank property, Directors fees and allowances, Postage & Telephone and Repair and Maintenance decreased per branch in last 5 years and it is a good sign of cost controlling by the bank.

**Table 4** below shows employees wise operating expenses of the bank. It is clearly seen that number of employees increased from 3024 to 3116 in last five years but direct expenses related to employees like Payment to and Provisions for employees increased from 6.79 lakhs rupees per employee to 20.57 lakhs per employee and it is 3 times increase. It is a big concern for bank that on one side expenses related to employees are increasing but number of employee is not increasing at same pace. Other expenses that increased per employee are Rent Taxes and Lighting (from 0.57 lakhs to 0.62 lakhs), Law Charges (From 0.04 lakhs to 0.21 lakhs), Insurance expenses (from 0.46 lakhs to 0.96 lakhs) and other expenditure (from 1.38 lakhs to 3.62 lakhs). The expenses which decreased per employee in last five years are Printing and Stationery, Advertisement and Publicity, Depreciation of Bank's Property, Directors' fees, allowances and expenses, Postage, Telegram, Telephone and Repair and Maintenance etc. And it is a good sign of improvement in case of cost cutting by the bank.




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<b>Operating Expenses Per Employee Wise</b>																	
Year	2018			2019			2020			2021			2022				
Operating Expenses	Amount in Lakh Rupees	No. of Employees	Average	Amount in Lakh Rupees	No. of Employees	Average	Amount in Lakh Rupees	No. of Employees	Average	Amount in Lakh Rupees	No. of Employees	Average	Amount in Lakh Rupees	No. of Employees	Average	Over all Average	Change in Percentage
Payment to and Provision for Employees	20523	3024	6.79	25444	3203	7.94	46205	3121	14.80	52062	3116	16.71	64095	3116	20.57	<b>13.36</b>	<b>212</b>
Renta, Taxes and Lighting	1719	3024	0.57	1960	3203	0.61	1920	3121	0.62	2026	3116	0.65	2000	3116	0.64	<b>0.62</b>	<b>16</b>
Printing and Stationery	422	3024	0.14	266	3203	0.08	194	3121	0.06	213	3116	0.07	346	3116	0.11	<b>0.09</b>	<b>-18</b>
Advertisement and Publicity	38	3024	0.01	26	3203	0.01	21	3121	0.01	9	3116	0.00	15	3116	0.00	<b>0.01</b>	<b>-61</b>
Depreciation on bank property	994	3024	0.33	1003	3203	0.31	1139	3121	0.36	1032	3116	0.33	919	3116	0.29	<b>0.33</b>	<b>-8</b>
Directors' fees allowances and expenses	0.41	3024	0.00	0.39	3203	0.00	0.46	3121	0.00	0.05	3116	0.00	0.25	3116	0.00	<b>0.00</b>	<b>-39</b>
Auditor Fees and Expenses	57	3024	0.02	70	3203	0.02	74	3121	0.02	75	3116	0.02	58	3116	0.02	<b>0.02</b>	<b>2</b>
Law charges	135	3024	0.04	468	3203	0.15	1156	3121	0.37	1066	3116	0.34	642	3116	0.21	<b>0.22</b>	<b>376</b>
Postage, Telegram, Telephone etc	726	3024	0.24	732	3203	0.23	236	3121	0.08	186	3116	0.06	313	3116	0.10	<b>0.14</b>	<b>-57</b>
Repaire and Maintenance	141	3024	0.05	136	3203	0.04	155	3121	0.05	137	3116	0.04	102	3116	0.03	<b>0.04</b>	<b>-28</b>
Insurance	1393	3024	0.46	1585	3203	0.49	1761	3121	0.56	2256	3116	0.72	2992	3116	0.96	<b>0.64</b>	<b>115</b>
Other Expenditure	4164	3024	1.38	4480	3203	1.40	5946	3121	1.91	8542	3116	2.74	11276	3116	3.62	<b>2.21</b>	<b>171</b>

**Table 4 Source of Data:-Financial Statements of SHGB**

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### **Conclusion and Suggestions:-**

1. Sarva Haryana Garmin Bank should reduce its operating expenses related to employees because these are increasing year to year in comparison to number of employees. Bank can reduce these expenses by providing training and development to Human Resources.
2. Law charges are also increasing since last five years. These can be reduced through their own employees, because many legal charges can be avoided if cases are handled properly before going in to court or to an advocate.
3. Insurance charges increased in last five years as concluded above. In researcher's opinion, this is demand of today's banking functions to avoid unavoidable losses and cases.
4. There is a big amount of other expenditures which are not classified purpose wise. If in its income statement, banks classify these, it will be easy to control these expenses.
5. In case of other expenses, which are reducing year to year, it is suggested that bank can keep up this strategy to further reduce these expenses.
6. Use of new and latest technology will definitely reduce all these operating expenses in coming years.

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