Perspectives on 'One State One RRB': Building a resilient and efficient rural banking system

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Foreword

RRBs in India, since their establishment in 1975, have been vital in expanding agricultural credit and fostering rural economic development by extending financial services to remote parts of the country. However, in today's economic climate, the rural banking sector is facing several challenges, such as the need for a stronger capital base and mindful adoption of modern technologies, thereby necessitating the need for a transformation. To align with this, the Government of India is pursuing a strategic amalgamation of RRBs.

This paper sheds light on the intricacies of RRB amalgamation. The consolidation of RRBs offers an opportunity to tackle challenges and adapt to the changing market conditions while providing enhanced banking services to rural India. Our analysis of this initiative delves into various benefits of the consolidation process. Although complex, this initiative could bring many advantages to RRBs, including improved risk management and financial stability. In this white paper, we explore several key areas to be carefully considered during the amalgamation process.

The journey ahead could be challenging; however, the potential rewards seem to be significant as well. By strengthening our RRBs, we can serve our rural communities better, enhance financial inclusion and contribute to the nation's overall economic growth.

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Foreword

RRBs have been playing a vital role in providing credit to rural India, acting as key channels for financial inclusion across our nation's hinterlands. According to a gazette notification dated 7 April 2025 by the Government of India, RRBs across 11 states are to be amalgamated as of 1 May 2025. This would result in the amalgamation of 26 RRBs across 11 states to form 11 RRBs, which would reduce the total number of RRBs from 43 to 28 across the country.

The strategic amalgamation of the RRBs represents a crucial step in India's commitment to inclusive growth with the aim of creating more agile, more robust and efficiently governed entities. This amalgamation initiative, with the guidance of the policy of Government of India and regulatory supervision of the NABARD, is more than just an administrative restructure. Instead, it is a once-in-a-generation chance to reimagine rural banking. The consolidation is expected to yield several benefits such as capital adequacy, operational efficiency, enhanced credit outreach and digital transformation.

In this paper, we delve into the fundamental rationale, transition hurdles and the key areas of the execution that will determine the success of this initiative. We offer assistance through technology-enabled strategies, policy-aligned frameworks and our deep insight into India's rural financial landscape. If implemented efficiently, this amalgamation can usher in a new era of inclusive, resilient and future-ready rural banking.

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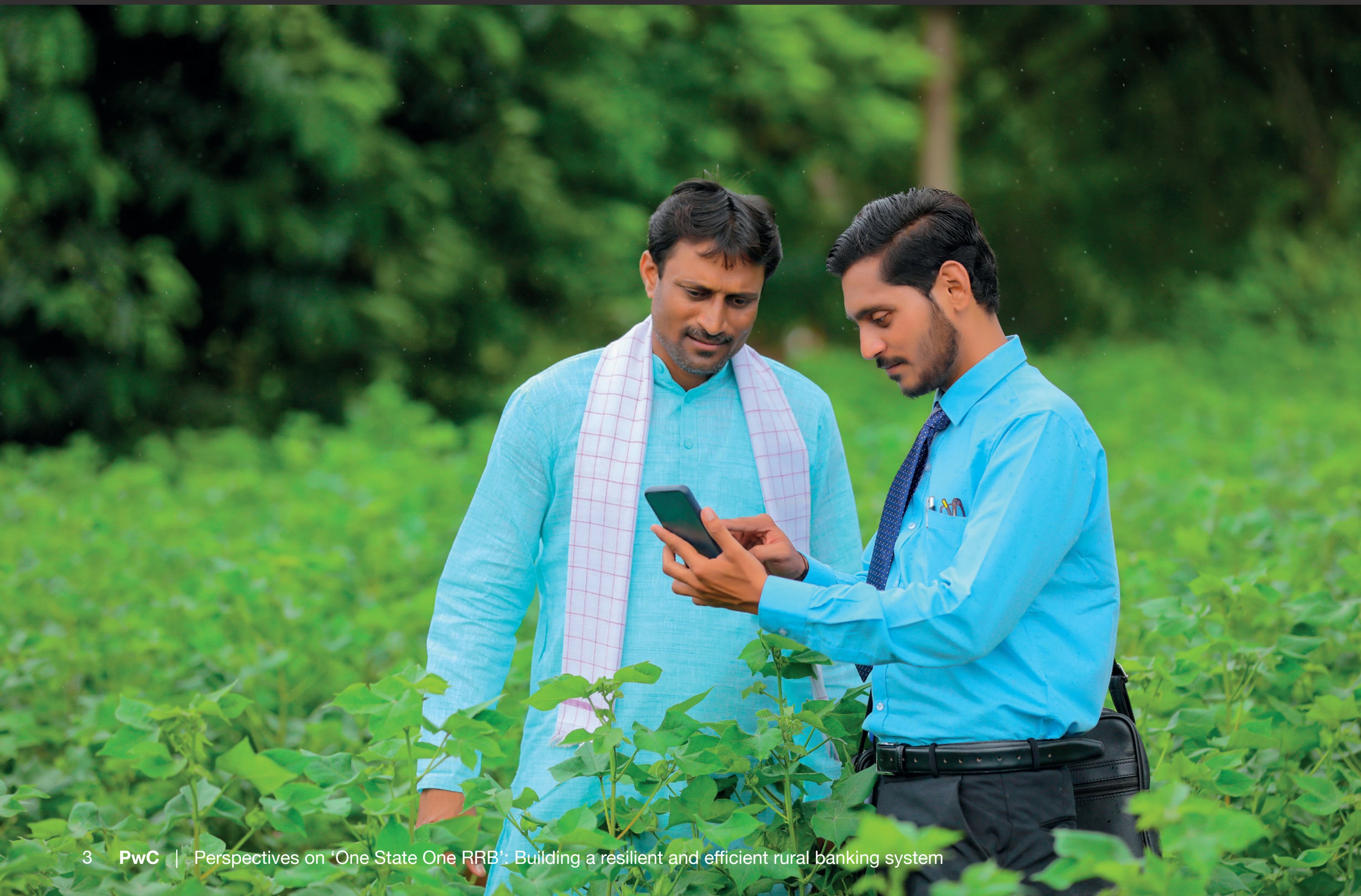

Executive summary

In this paper, we cover the evolution of RRBs in India since their inception in 1975. The Narasimham Committee recommended their establishment recognising the need for bridging rural credit gaps and addressing the diverse social complexities of rural life. Their number rapidly grew to 196 by 1990, led by a combination of several factors such as economic demands, targeted initiatives by the government, the initial success of RRBs and the low cost of establishing new ones. However, challenges such as low recovery rates, high operational costs and capital depletion prompted a series of amalgamations starting in 2004.

The first phase of amalgamation, initiated in FY 2004–05, targeted at consolidating RRBs under the same sponsor bank within a state, reducing the number of RRBs from 196 to 82.

The second phase aimed at strengthening RRBs by amalgamating geographically contiguous RRBs within a state, regardless of their sponsor banks, further reducing the number to 56 by March 2015. This phase focused on optimising resources and attaining economies of scale.

The third phase of consolidation left 43 RRBs by March 2021, supported by government recapitalisation efforts that improved their financial health. The current RRB amalgamation mandate aims to establish a single RRB per state, enhancing market competitiveness, financial stability and lending capacity. This initiative seeks to improve liquidity, optimise costs and accelerate business growth of RRBs. Increased technology adoption and product innovation are expected to cater to rural needs more effectively. The consolidation will also strengthen the rural and cooperative ecosystem, promoting structured collaboration with cooperatives to enhance credit distribution and governance.

Key considerations for a successful RRB integration comprise technology, operations, finance, regulatory compliance, customer experience and human capital management.

In this paper, we also give an account of how PwC assisted two SBI-sponsored RRBs – APGVB and TGB – with their bifurcation and amalgamation process.

We hope you find this paper to be insightful.

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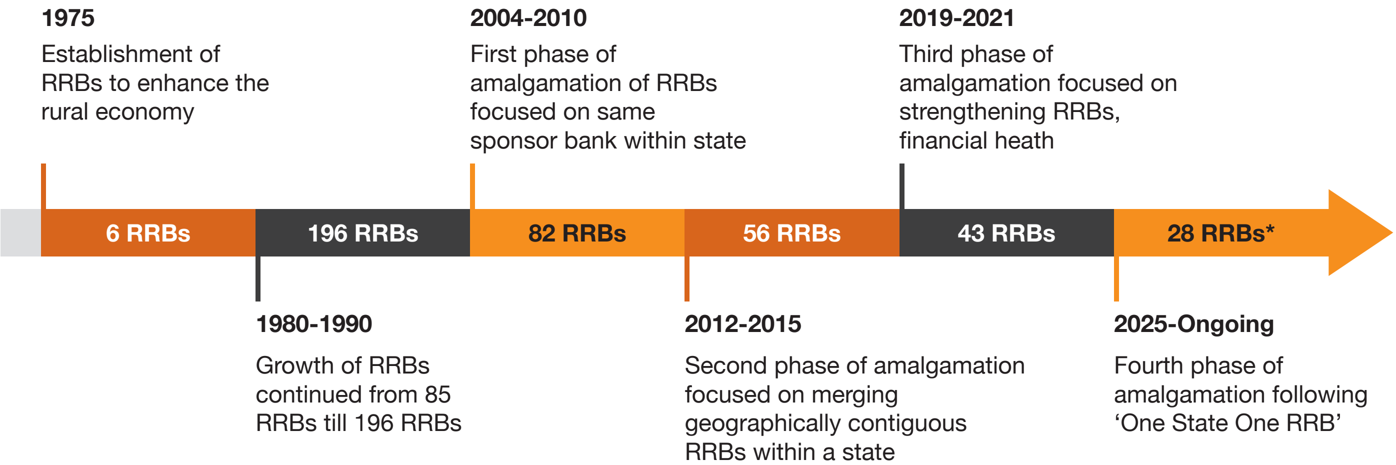
Evolution of RRBs in the Indian financial services landscape

The RBI undertook the All-India Rural Credit Survey in 1951, involving 600 villages across 75 districts, to obtain a better understanding of rural lending.[1] According to the survey, only 6% of the rural population had access to formal credit from either government agencies or cooperatives. In contrast, non-institutional creditors such as dealers, landlords, commission agents, and private and agricultural moneylenders dominated the rural credit market. The survey findings led to significant focus on institutional reforms, with key outcomes including the strengthening of cooperative credit and the nationalisation of imperial banks in 1969. However, banks struggled owing to unfamiliarity with rural credit methodologies and regional customs. At the same time, cooperatives, with limited resources and inefficient management, could not effectively meet the credit requirements of the rural population.

Recognising the need for a new financial entity to bridge this gap, and given the growing need of credit and the diverse social complexities of rural life, the Narasimham Committee recommended establishing RRBs in 1975. The first phase saw the creation of five RRBs under the 1975 ordinance, with Prathama Bank in Moradabad (Uttar Pradesh) being the first RRB, sponsored by Syndicate Bank. Subsequently, more RRBs were established in Gorakhpur, Malda, Bhiwani and Jaipur in the states of Uttar Pradesh, West Bengal, Haryana and Rajasthan, respectively. The original ordinance was replaced by the Regional Rural Banks Act,1976.

Figure 1: Evolution of RRBs and their growth and expansion phases over the last 50 years



*Post the completion of ‘One State One RRB’ initiative

Source: Various annual reports of NABARD, RBI publications and news websites

1. RBI

Exponential growth phase

The number of RRBs increased significantly from 6 to 196 during 1976 to 1990, covering 372 districts with a network of 14,443 branches nationwide. This rapid growth was attributable to a combination of several factors such as economic demands, targeted initiatives by the government, the initial success of RRBs and the low cost of establishing new RRBs.

The early success of the first six RRBs in disbursing credit to underserved rural communities prompted the government to scale up rapidly. The government's intent to end the zamindari system and empower rural populations by providing access to formal savings and loan facilities further fuelled the creation of RRBs in diverse regions. Between 1976 and 1990, the government actively issued notifications for opening new RRBs in various states, with each RRB designated to serve a few districts to ensure that every rural area had a dedicated banking institution. The tripartite ownership pattern ensured financial and operational support from well-established commercial banks, whose training, infrastructure and skills facilitated rapid scaling. The emphasis on minimal infrastructure and local hiring further reduced setup costs, allowing the government to roll out new banks quickly across states. The legal framework of the RRB Act, 1976 allowed the government to establish banks wherever it deemed necessary, offering flexibility to expand based on regional needs without significant bureaucratic delays. Consequently, deposits and advances grew to INR 4,023 crore and INR 3,384 crore, respectively, by 1990.[2] This surge phase continued till 2004, with deposits and advances rising 14 and 7 times respectively, compared with 1990.

First phase of amalgamation

Factors such as low recovery rates, overdue loans and high operational costs resulted in capital erosion and significant losses for RRBs. In FY 2003–04, 90 RRBs reported accumulated losses of INR 2,725 crore. Of these, 53 RRBs had depleted their entire owned reserves along with some of their deposits. Moreover, RRBs' NPAs amounted to INR 3,299 crore as of 31 March 2004. As a result, the first phase of the amalgamation proposal was approved based on recommendations from the Dr Vyas Committee and an RBI internal working group. The first phase began in FY 2004–05, with a goal of merging RRBs within the same sponsor banks within a state; the total number of RRBs went down from 196 to 82, with 46 amalgamated RRBs and 36 standalone entities. Consequently, the number of RRBs generating losses fell to just seven by FY 2010–11.

Second phase of amalgamation

The second phase of amalgamation commenced in 2012, aiming to strengthen RRBs in order to optimise resources and attain economies of scale by merging geographically contiguous RRBs within a state, regardless of their sponsor banks. Consequently, the number of RRBs decreased from 82 to 64 by March 2013 and then further to 56 by March 2015, covering 644 districts with a network of 20,024 branches.[3]

This amalgamation of existing RRBs, coupled with recapitalisation measures based on the recommendations of the Dr K C Chakrabarty Committee – which proposed a capital infusion of INR 2,200 crore for 40 of the 82 RRBs to achieve a CRAR of at least 9%[4] – significantly improved credit flows to rural and underbanked areas of the country.

Third phase of amalgamation

The primary objectives of the third phase of amalgamation were to decrease overhead costs, expand capital base and enhance technological infrastructure. By March 2021, 43 RRBs remained after the three phases of amalgamation. The phased consolidation of RRBs, along with the Indian Government's recapitalisation efforts amounting to INR 10,280 crore, increased the net profit of RRBs from INR 1,759 crore in FY18–19 to INR 4,974 crore by FY22–23.[5]

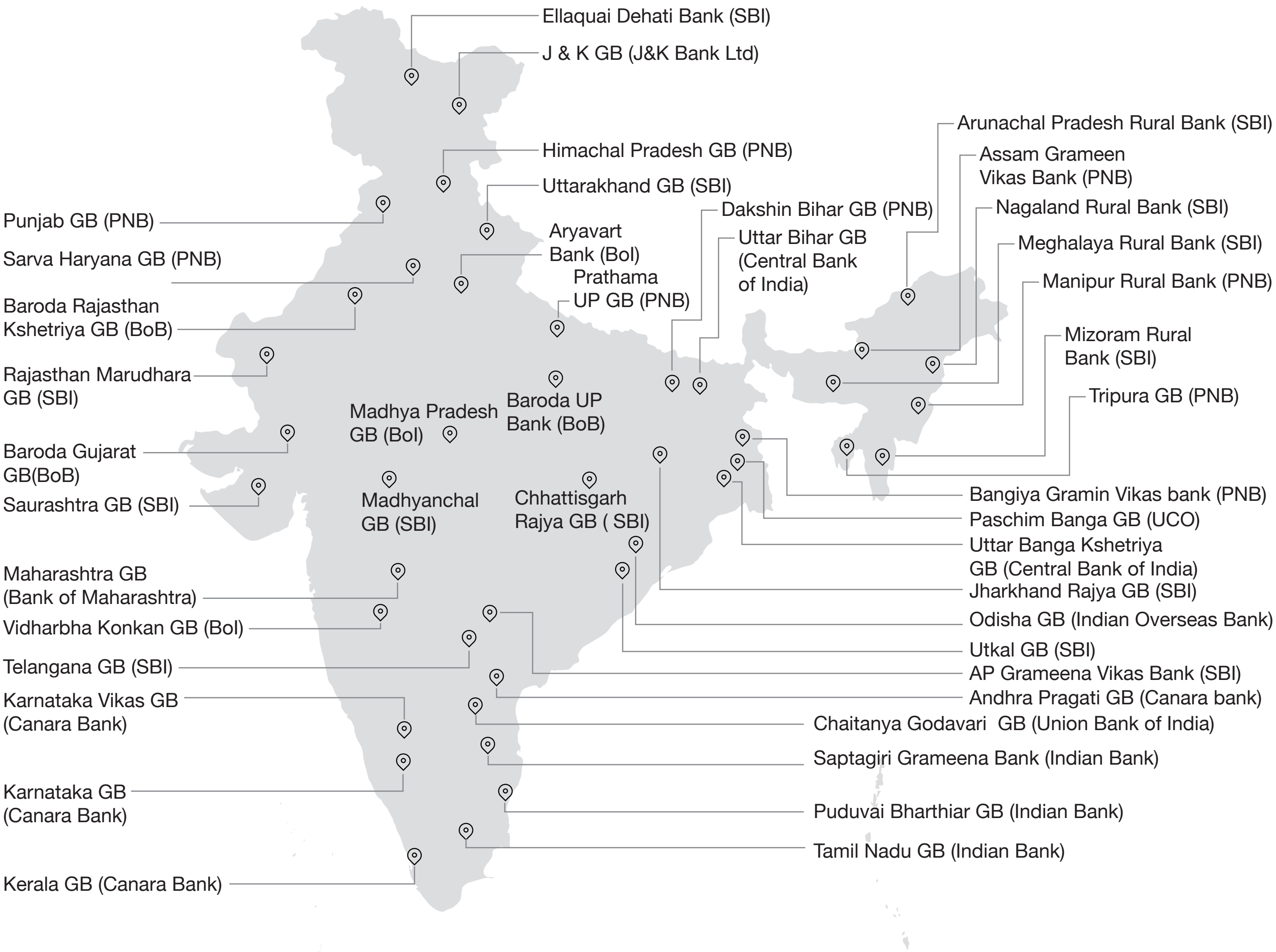
2. RBI
3. NABARD
4. Press release by Government of India
5. Review of performance of RRBs during FY 2022–2023, DFS

Current situation

Although RRBs have made notable progress in financial inclusion in rural and underbanked areas, states such as Andhra Pradesh, Bihar and Uttar Pradesh continue to face challenges. In these states, the presence of multiple RRBs complicates efforts to achieve product synergy, increase operational efficiency, reduce operating costs and implement standardised practices for smooth RRB functioning. To address these issues and further strengthen the rural banking system, the government is implementing the One State One RRB policy.

Under this initiative, the largest public sector lender, which currently sponsors 14 RRBs, will reduce its sponsorship to eight RRBs. Similarly, other nationalised banks will also see a reduction in their sponsored RRBs, decreasing the total from 43 to 28. The amalgamation of RRBs is expected to bring several benefits by significantly enhancing their competitiveness and stability, expanding their capital base and improving lending capabilities. The adoption of digital banking services will not only make operations more efficient and cost-effective but will also enable improved governance, allowing amalgamated RRBs to adopt industry best practices and significantly boost their performance.

Figure 2: Current spread of RRBs in the country with respective sponsor banks



Source: NABARD

2

Rationale for the amalgamation

The One State One RRB initiative intends to establish a single RRB in every state that can deliver excellent banking experience to rural customers and, as well as act as a catalyst to accelerate financial inclusion and rural economic growth. The following key strategic elements are envisioned to propel this initiative.

2.1 Strategic considerations

Amalgamation can help RRBs boost their competitiveness and reputation.

1. **Financial stability:** The amalgamated RRB will have a greater capital base, allowing it to meet capital adequacy norms. This will reduce interventions by the supervising authority and decrease the probability of a crisis. The bank's financial stability will also boost customer confidence and strengthen the rural financial ecosystem.

2. **Strengthened lending capacity:** Increased lending capacity of the amalgamated RRB can result in higher credit disbursements, meeting the ever-increasing credit demand among rural customers – especially in MSMEs and agriculture and allied sectors.

3. **Potential improvement in financial position:** The amalgamation can potentially improve the liquidity position of newly merged RRBs owing to increased availability of funds and improved efficiency due to economies of scale. The amalgamation can provide the consolidated RRB with a larger capital base, allowing it to leverage and borrow at competitive rates. The consolidation can also optimise sourcing and collections, thus reducing operational costs and paving the way for improved unit economics. The amalgamated RRB may further deploy treasury management tools for functions such as cash flow forecasting and real-time liquidity management, thereby eliminating the need for excessive reserves and minimising negative carry.

4. **Better supervision:** Currently, some sponsor banks do not necessarily have major presence in their respective states.

   For example, Ellaquai Dehati Bank in Jammu and Kashmir is sponsored by SBI, which is not the major public sector bank in the region in terms of business and branch presence. Public sector banks with strong presence in their respective states can extend effective oversight and improved guidance to their RRBs. The amalgamation initiative can realign sponsor bank and RRB mapping wherever needed.

5. **Promoting financial inclusion:** With larger technological and infrastructural capabilities, the merged entity may be better positioned to leverage digital banking to expand customer reach. It can also undertake product innovation by integrating products with government schemes, making them affordable and attractive to customers.

6. **Improved competitiveness:** An amalgamated and larger RRB can enhance its market competitiveness by leveraging its combined resources to diversify and innovate its product offerings. By pooling capital and expertise, the merged entity can introduce tailored financial products, such as microfinance options for small businesses, seasonal crop-linked savings schemes and products bundled with insurance plans focused on drivers of the local economy (such as farming or livestock). Such an expanded portfolio, supported by streamlined operations, will enable the consolidated entity to compete more effectively with other financial institutions while addressing the unique needs of rural communities.

2.2 Operational considerations

Amalgamation can improve the day-to-day operations, processes and workflows of banks, leading to immediate and long-term value creation for the merged entity due to economies of scale and scope.

1. **Enhanced efficiency:** Merger of RRBs in the same state can result in the rationalisation of branch network, elimination of redundant processes and reduction in operational overheads. The merged entity can leverage and implement best practices from amalgamated RRBs and the industry, resulting in operational efficiency and improved productivity. The amalgamation can also enable the bulk procurement of hardware and software, enhance buying power and thereby lower costs.

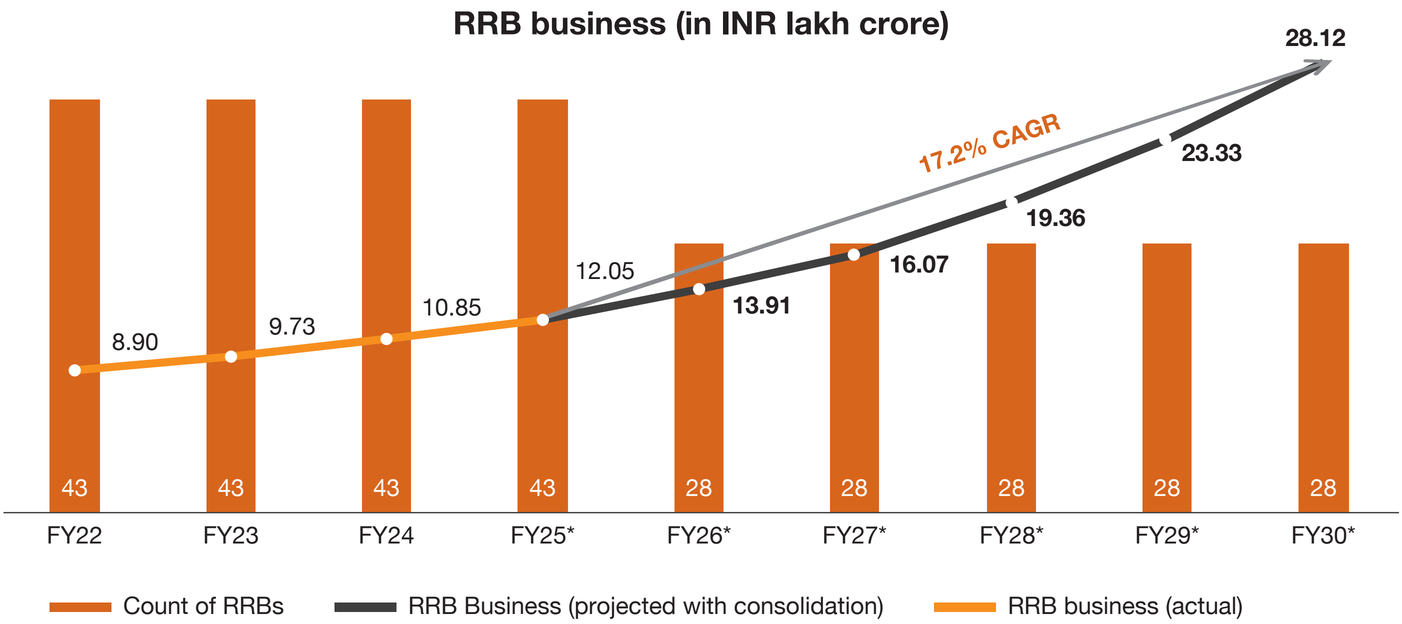
2. **Better compliance:** The amalgamation will simplify and improve regulatory compliance by creating a single, streamlined entity per state. A unified RRB can centralise compliance functions, such as anti-money laundering checks, KYC verification and reporting to the RBI and NABARD, thus reducing duplication of efforts across multiple smaller banks. A consolidated governance structure can facilitate the implementation and monitoring of adherence to regulatory norms, ensuring consistency and accuracy in filings. The merged entity can invest in advanced compliance software and training, improving its ability to adapt to evolving regulations or priority sector lending targets. Such a centralised approach can minimise the risk of penalties due to oversight or errors while enhancing accountability and transparency.

3. **Skilled human capital:** The amalgamation of RRBs will ensure the availability of a large pool of capable personnel with diverse skills who can be redeployed from overlapping roles to areas of need such as customer service or digital banking support, thus optimising workforce utilisation. A centralised human resource framework can streamline recruitment, training and performance management, reducing administrative costs and ensuring consistent skill development across branches. Employees will gain access to better career progression opportunities within a larger organisation, boosting morale and retention. Consolidation can also facilitate the creation of specialised teams – e.g. a customer experience centre of excellence, rural-focused product development team or a programme management department – enhancing expertise and efficiency. Additionally, unified training programmes on technology and compliance can be conducted to upskill staff, aligning their capabilities with the RRB's expanded goals and ultimately strengthening service delivery in rural areas.

4. **Increased technological adoption:** RRB amalgamation can drive technological benefits by unifying and upgrading systems. A single core banking platform can integrate customer data, streamlining operations, and enabling faster, scalable digital services such as mobile banking and UPI. Pooling resources can enable investment in advanced tools – such as AI for predictive credit scoring, cloud solutions for cost-effective scalability and internet of things-enabled smart kiosks in rural areas – which can enhance service delivery. A consolidated IT and technological infrastructure can result in superior overall capabilities for the merged entity – including improved cybersecurity, fraud prevention, big data analytics for personalised offerings and voice-assisted banking in vernacular languages – accelerating rural digital inclusion with greater efficiency and reach.

5. **Accelerated business growth:** Amalgamation will grant the merged entity access to a larger pool of capital, customer data and shared resources. This presents an opportunity to leverage economies of scope by bundling their product offerings, cross-selling products and deepening customer engagement. Consolidated RRBs are expected to experience accelerated growth in deposits and credit, leading to a rapid increase in business size. If RRBs are able to achieve the expected synergies from the consolidation exercise, they will experience exponential growth, with the total business (i.e. deposits and advances outstanding) projected to reach INR 28.12 lakh crore by FY30 (at a CAGR of ~17%) from INR 10.85 lakh crore as of FY24.

Figure 3: Total consolidated business size of RRBs



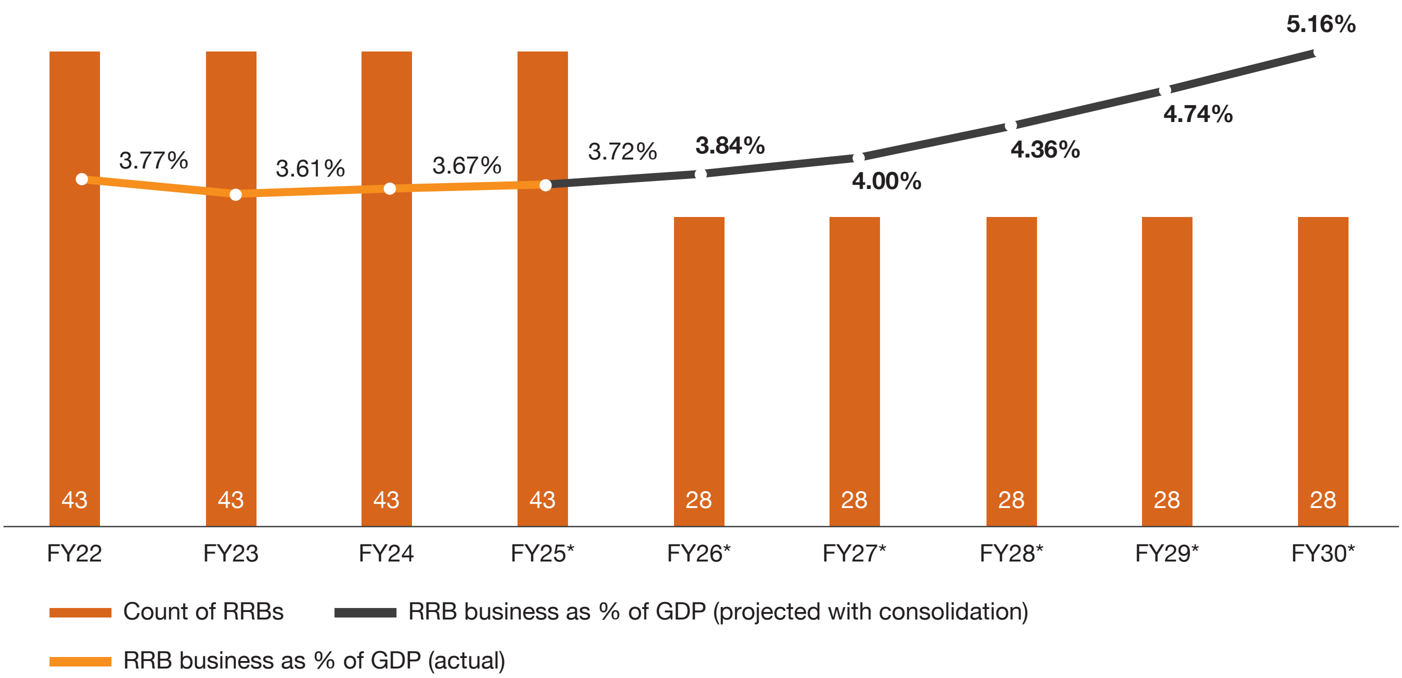
*Projected values

Source: Statistical tables relating to banks in India, RBI

Note: All projections (from FY25 onwards) are based on PwC analysis.

Following consolidation, the total RRB business as a percentage of India's GDP is expected to reach ~5.2%[6] by FY30 from ~3.7%[6] as of FY24, helping the nation in its journey towards becoming a USD 30[7] trillion economy by 2047.

Figure 4: RRBs' business as a percentage of India's GDP



*Projected values

Sources: GDP - Economic Survey 2024–25; Business size of RRBs - Statistical tables relating to banks in India, RBI

Note: All projections (from FY25 onwards) are based on PwC analysis.

6. PwC analysis
7. Press Information Bureau (19 February 2024)

2.3 Rural and cooperative ecosystem considerations

India's cooperative structure includes RCBs, which are rural financial institutions owned and managed by their members. RCBs consist of both long- and short-term credit structures:

- SCARDBs and SCARDB-affiliated PCARDBs constitute India's LTCCS. LTCCS is unitary in some states and mixed (unitary and two-tier) in others.
- StCBs, DCCBs and PACS in villages together constitute the STCCS. However, in some states, the STCCS may also be two-tiered, including only PACS and StCBs. StCBs generally provide refinancing support to DCCBs, whereas DCCBs provide credit to PACS, which in turn lend to their members.

NABARD, in its capacity as the apex development bank, provides refinancing to RRBs and cooperatives through different schemes supporting rural development. Currently, the cooperative structure operates independently from RRBs. However, there is an overlap in the customer base of these entities at the rural level, leading to inefficiencies in credit distribution.

With the introduction of the One State One RRB initiative, each state will have a strong RRB with expanded credit capacity. Additionally, a structured collaboration between RRBs and cooperatives can play an important role in strengthening the cooperative ecosystem. RRBs can function as enablers, with the collaboration taking place across the following four dimensions.

Product and operations

The MoC has introduced various initiatives aimed at business diversification and expansion to transform the cooperative sector. Strong, amalgamated RRBs can support RCBs in their respective states in the following ways:

1. Enable market linkages by supporting PACS and their members in utilising the eNAM and the Open Network for Digital Commerce for connecting with suppliers and customers.
2. Leverage the reach of cooperatives for streamlining disbursement of government aid and administering various flagship schemes at the PACS level, thereby maximising their effectiveness.
3. Design custom products and services tailored to the needs of cooperatives, such as livestock insurance, invoice discounting and cluster-based MSME financing.
4. Assist RCBs in designing products to leverage the financial assistance provided by government schemes such as PM Vishwakarma and PM Suryaghar to enable easier credit access to their customers.

Technology

RCBs have not kept pace with the technological advancements reshaping the banking landscape, resulting in customer attrition and reduced competitiveness. Consolidating RRBs will enhance the technological capability of the merged entity, which can support cooperatives in the following ways:

1. RRBs can establish a centre of excellence to support RCBs in integrating customer-facing functions and internal bank technology services, in partnership with FinTechs and other technology service providers.
2. RRBs can extend banking services, such as digital transaction facilities, Aadhaar-linked banking services and UPI-integrated RuPay Kisan Credit Cards, to the cooperative network.
3. RRBs can connect cooperative members to Agri Stack, improving their access to markets, streamlining agri-financing and simplifying delivery of agri-focused government schemes, among other benefits.

Finance and credit

While the financial performance of cooperatives has improved over the years, RCBs continue to face challenges due to their low capital base and limited credit availability.

As of FY23, 13%[8] of DCCBs (46) and 6%[8] of StCBs (2) operated at a loss, while 12%[8] of DCCBs (42) and 6%[8] of StCBs (two) failed to meet the minimum required CRAR levels. Furthermore, 23%[8] of SCARDBs and 41%[8] of PCARDBs were unprofitable. SCARDBs have a limited deposit base and rely on borrowings as they do not come under the purview of the Banking Regulation Act and hence cannot mobilise deposits from non-members. RRBs can enhance affordable credit access to cooperatives in the following ways:

1. An amalgamated RRB can deepen its rural credit penetration by lending to PACS, Farmers' Service Societies, Large-sized Adivasi Multipurpose Societies, self-help groups, joint liability groups, etc. for onward lending to agriculture and other eligible activities.
2. RRBs can engage in co-lending arrangements with RCBs to provide joint financing for rural infrastructure projects.
3. RRBs can help cooperatives identify and access suitable funding sources and subsidy schemes as per their requirements – such as NABARD refinancing, Agriculture Infrastructure Fund and PMFME – by spreading awareness about the existence of these schemes, assisting cooperatives in the application process and providing inputs for effective fund utilisation.

Enabling and advisory support

A unified RRB in each state can provide guidance to cooperatives and support their growth in the following ways:

1. Enable the participation of cooperatives in various government schemes administered by the MoC by supporting them in onboarding and integrating with government portals.
2. Provide guidance to cooperatives in implementing government schemes by assisting them in reviewing scheme guidelines, ensuring compliance with the eligibility criteria and allocating resources for the effective utilisation of schemes.
3. Facilitate cooperatives in signing MoUs with relevant organisations to foster collaboration and boost the growth of the rural economy.
4. Assist cooperatives in drafting policies pertaining to HR, risk, credit, governance, etc.
5. Provide advisory support to RCBs for improving their governance and adherence to regulatory standards.
6. Facilitate the organisation of periodic workshops and training related to digital banking services, latest industry trends, etc.

Amalgamated RRBs can utilise their strength and funding capacity to play a key role in driving the growth of cooperatives to realise the vision of 'Sahakar se Samriddhi' in alignment with the goal of Viksit Bharat@2047.

8. NABARD Annual Report, 2023-24

3

Benefits of RRB amalgamation

The benefits derived from amalgamation will impact RRBs, regulators and the economy as a whole. This will ensure that RRBs maintain their competitiveness across the three dimensions of business, technology and human capital, making them indispensable for the growth of the rural ecosystem.

Benefits expected from the 'One State One RRB' initiative		
For RRBs	**For regulators and supervisors**	**For the economy**
Operational efficiency • Decreased operational costs • Increased productivity • Cost optimisation • Economies of scale	**Regulatory oversight** • Minimised supervisory intervention	Financial ecosystem • Strong rural financial infrastructure • Growth in economic activities
Technological advances • IT system consolidation • Improved cybersecurity • Improved digital banking services • Centralised operations	**Implementation of government schemes** • Streamlined uniform implementation • Faster scheme rollout and improved monitoring	**Credit flow to priority sector** • Higher credit disbursal to agriculture, MSMEs and allied sectors • Funding for large-scale rural development projects
Financial performance • Strong capital base • Improved asset quality	**Financial stability** • Improved capital adequacy • Reduction in bank failure risk	**Financial inclusion** • Increased reach of financial services to unbanked rural populations
Customer experience • Improved customer service • Improved banking access in remote areas	**Capital infusion** • Decreased reliance on government capital infusion	**Cooperative ecosystem** • Business diversification and expansion • Improved credit access

4

Key considerations for sponsor banks and RRBs during amalgamation

The amalgamation of banks is a complex process that requires meticulous planning and execution across various aspects of the merging entities. A well-planned and -executed consolidation is crucial for ensuring smooth transition, minimising disruptions and achieving the amalgamation's intended synergies and benefits. The key areas that require careful consideration and coordination during banking amalgamation include the following:

1. **Technology integration and data migration**

   As part of the amalgamation, to ensure flawless and accurate migration of CBS data, RRBs must draft a plan for mock migration runs and final data migration, as well as design a comprehensive testing and execution strategy to ensure data integrity and prevent any loss of data. RRBs must establish a robust post-go-live support framework and continuously track and monitor system performance to ensure business continuity. To achieve IT synergy, the newly merged entity must streamline infrastructure, platforms, and licences and plan for data migration for all internal and external applications. They must ensure seamless data migration of all electronic payments and other banking channels along with timely activation of these channels at go-live for a smooth, uninterrupted customer experience. RRBs must manage all required communication and manage the data with external stakeholders. Additionally, RRBs must conduct required data migration audits to ensure regulatory compliance.

2. **Operational aspects and branch consolidation**

   RRBs must harmonise their product portfolio, interest rates and process workflows to provide customers with a consistent experience after amalgamation. Additionally, banks should focus on consolidating and rationalising their branch networks, infrastructure and vendor contracts to improve efficiency. RRBs must also consider the risks and dependencies associated with external stakeholders.

3. **Finance and regulatory considerations**

   RRBs should ensure timely completion of pre- and post-amalgamation audits and focus on adherence to statutory and liquidity ratios. Other financial aspects that should be considered include valuation (if applicable) and transfer of funds, such as government securities, investments with other regulatory bodies and HR-related funds.

4. **Customer communication, management and query resolution**

   During the amalgamation process, RRBs should set up appropriate customer service touchpoints to keep customers informed about the change in procedures and handle their concerns. RRBs must consider minimising downtime duration and plan such downtime to avoid critical periods of the month, such as those involving salary credit and government benefit transfers. Moreover, RRBs should ensure the continuity of basic banking services even during downtime.

5. **Human capital management and organisational restructuring**

   The amalgamated bank needs to design a strategy for workforce realignment and employee movement by optimising resource allocation across the front, middle and back offices. To assist transitioning employees, the entity needs to establish support desks for addressing their queries and conduct trainings on revamped processes and systems.

By addressing the key considerations outlined in the above section, banks and other stakeholders involved in the amalgamation can ensure a smooth transition and mitigate risk, thereby establishing a strong foundation for the merged entity to continue providing uninterrupted service to its customers.

5

Case study: PwC-assisted bifurcation of the balance sheet, operations and consequent amalgamation of two SBI-sponsored RRBs – Andhra Pradesh Grameena Vikas Bank and Telangana Grameena Bank

Setting the context

The DFS mandated the bifurcation of the APGVB between Andhra Pradesh and Telangana to align with the 2014 Andhra Pradesh Reorganisation Act. As per the directions from the DFS, the bifurcation was mandated to be completed by 1 January 2025. The bifurcated branches of APGVB in Telangana were to be merged into the TGB.

SBI, the sponsor bank of both APGVB and TGB, approached PwC to assist in the completion of the bifurcation and amalgamation process. APGVB had branches in five districts of Telangana and three districts of Andhra Pradesh.

Table 1: Summary of the number of branches before and after bifurcation

Entity	Before bifurcation	After bifurcation
APGVB	771 (278-AP and 493-TS)	278-AP
TGB	434-TS	927 (434+493)-TS

AP- Andhra Pradesh
TS- Telangana state

Challenges and risks

Consolidating RRBs entails a unique set of challenges and risks – such as aligning technological platforms, checking the compliance with regulations, and meeting financial and operational challenges – which necessitate detailed tactical planning and a risk management approach. Both the RRBs, with the support of SBI, were able to manage and overcome these challenges, and PwC's BMO assisted them throughout the process.

Financial

- Inconsistencies in the chart of accounts and variability in the mapping of branch and corporate ledgers
- Finalising allocation logics of the balance sheet
- Possibility of an adverse impact on the CRAR ratio after amalgamation
- Complications in the movement of securities, funds and investments

Operational

- Differences in operational and organisational structure
- Unexpected delays and downtime
- Impact on customer experience due to banking service downtime
- Operational difficulty associated with physical movement and maintenance of documents and files

Technological

- Unavailability of detailed CBS migration plan
- Lack of adequate time to conduct the required number of mock migrations
- Unavailability of a comprehensive checklist for the verification of critical fields for migrated data
- Data volume-related challenges in the management of transaction histories and migrated data backups
- Processing challenges in migrating Aadhaar token IDs to CBS for migrated customers

Governance and stakeholder management

- Establishing a robust project governance mechanism
- Creating and finalising an activity-wise project plan
- Establishing SOPs, templates and document management processes for the bifurcation project
- Addressing difficulties in tracking updates across departments and technology service providers

Overview of the roadmap

The roadmap provided below outlines a structured framework for the bifurcation and amalgamation of both RRBs that PwC had assisted and worked upon. It includes a detailed project plan, allocation logics for dividing assets and liabilities, and alignment with the DFS mandate.

Implementation and monitoring of the bifurcation process were focused on robust governance, stakeholder coordination and risk management for accuracy and compliance. Both the RRBs and the sponsor bank prioritised key operational aspects, such as data migration and customer advisory measures, to minimise disruption and preserve customer experience.

Overall, the plan aimed for the seamless bifurcation of APGVB and merger with TGB.

Plan

- **Break down tasks across workstreams**
  Split the bifurcation and subsequent amalgamation process into different workstreams to assist in improved monitoring and execution
- **Develop a detailed project plan**
  Identified key activities to be completed and created a detailed project plan with timelines according to the effective date of bifurcation communicated by the DFS order, i.e. 1 January 2025
- **Project governance and cadence**
  Implemented a structured project governance mechanism for seamless communication among all stakeholders
- **Develop and finalise asset–liability division logic**
  Finalised the methodology and logic for splitting and/or merging assets and liabilities. Worked on accurate division based on audited financial positions/ratios, as guided by the DFS and the working group
- **Dependency resolution framework**
  Established a framework to identify and resolve dependencies with external stakeholders and technology vendors for uninterrupted transition

Execute

Monitor

- **Project governance and stakeholder coordination**
  Established the required governance mechanism with a well-defined meeting cadence, periodic status updates and a clear escalation mechanism. Coordinated and organised steering committees and working group meetings with key stakeholders and representatives from all concerned entities, including SBI
- **Task progress monitoring**
  Continuously tracked and monitored the progress of all activities and provided regular status updates to all stakeholders
- **Risk management and mitigation**
  Identified potential risks and issues and proposed mitigation strategies well in advance to minimise bottlenecks
- **Balance sheet bifurcation and audit facilitation**
  Bifurcation of and proposed adjustments to the balance sheet for post-amalgamation capital adequacy ratio to remain unaffected. Facilitated the conduction of special and data migration audits
- **Verification checklist development**
  Created a detailed checklist to verify critical fields in pre- and post-migration reports to ensure accuracy of data transfer
- **Data migration planning and execution**
  Created a detailed plan for the migration of CBS data and conducted mock migrations for migration in the production environment
- **Plan of action for data backup**
  Established a plan of action for transaction histories and migrated data backups
- **Customer advisory plan**
  Assisted in devising a customer advisory plan and assisting in its implementation, including measures to manage customer requirements during downtime
- **Customer experience**
  Managed the migration of banking services with no impact on customer experience

Impact

- **Branch operations**
  All 493 branches transferred to TGB were functioning successfully from the date of bifurcation, restoring regular business operations.

- **Data migration and system readiness**
  Data migration was successfully completed, and all systems were fully operational by the start of the day on 1 January 2025. Ensured availability of data backup and customer transaction history at the branches post-transition for smooth operations.

- **Balance sheet split and audit**
  Stakeholders finalised and approved the bifurcation logics for the balance sheet split. Furthermore, special audit and data migration audit were effectively completed within the agreed timelines.

- **Alternative delivery channels and payment methods**
  Uninterrupted transactions for all migrated customers via alternative delivery channels (e.g. ATM, mobile banking and internet banking) and payment methods (e.g. NEFT, IMPS and RTGS) were fully functional.

6

How PwC can help RRBs and sponsor banks during amalgamation

The PwC solution for RRB amalgamation is built on four key pillars: finance integration, operations and capability integration, technology integration, and robust programme management. This approach ensures regulatory compliance, operational efficiency and enhanced customer service while also achieving synergies and accelerating the growth of the merged entity. It helps organisations navigate dependencies and achieve successful amalgamation while adhering to regulatory standards and optimising resources.

Finance integration

Key areas covered:

- Managing finance-related tasks related to amalgamation compliance
- Developing and implementing a unified chart of accounts
- Assessing the impact of the amalgamation on banks' financial position
- Facilitating pre- and post-amalgamation audits

Potential deliverables:

- Structured SOP for execution and monitoring
- Impact assessment report
- Pre- and post-amalgamation audit checklist

Operations and capability integration

Key areas covered:

- Harmonising products, processes and policies across branches
- Re-branding and marketing
- Identifying and managing risks and dependencies with external stakeholders
- Developing customer advisories and communication plan
- Addressing workforce requirements and realignment

Potential deliverables:

- Workflow and product standardisation document
- Customer advisory and communication plan and corresponding texts
- Branch, infrastructure and human capital optimisation strategy

Technology integration

Areas covered:

- Migrating data for CBS and other support applications
- Rationalising and streamlining IT service providers to avoid redundancies
- Migrating data of all electronic payments and other banking channels for a smooth, uninterrupted customer experience
- Identifying and managing other technological dependencies

Potential outcomes:

- Mock and final data migration plans
- Testing strategy for data migration
- Dependencies and risk management by merging banks
- Amalgamation strategy of technology systems

Program management

Areas covered:

- Establishing a governance mechanism comprising escalation management, review cadence and internal communications
- Monitoring and reviewing the progress of planned activities, escalating potential risks or delays, and mitigating issues and dependencies
- Designing and managing templates to be used during the project

Potential outcomes:

- Project governance mechanism
- Project plan
- Periodic status updates
- Custom reports on project progress and status updates as per stakeholder requirements

Abbreviations

S. no.	Abbreviations	Full form
1.	AI	Artificial intelligence
2.	APGVB	Andhra Pradesh Grameena Vikas Bank
3.	ATM	Automated teller machine
4.	BoB	Bank of Baroda
5.	BMO	Bifurcation management office
6.	BoI	Bank of India
7.	CAGR	Compound annual growth rate
8.	CBS	Core banking solution
9.	CRAR	Capital-to-risk weighted asset ratio
10.	DCCB	District Central Co-operative Bank
11.	DFS	Department of Financial Services
12.	eNAM	e-National Agriculture Market
13.	GB	Grameen Bank
14.	GDP	Gross domestic product
15.	IMPS	Immediate payment service
16.	IT	Information technology
17.	J&K Bank	Jammu and Kashmir Bank
18.	KYC	Know your customer
19.	LTCCS	Long-term co-operative credit structure
20.	MoC	Ministry of Cooperation
21.	MoU	Memorandum of understanding
22.	MSME	Micro, small and medium enterprises
23.	NABARD	National Bank for Agriculture and Rural Development
24.	NEFT	National Electronic Funds Transfer
25.	NPA	Non-performing asset
26.	PACS	Primary Agriculture Credit Societies
27.	PCARDB	Primary Co-operative Agriculture and Rural Development Bank
28.	PMFME	Pradhan Mantri Formalization of Micro Food Processing Enterprises
29.	PNB	Punjab National Bank
30.	RCB	Rural Co-operative Bank
31.	RBI	Reserve Bank of India
32.	RRB	Regional rural bank
33.	RTGS	Real-time gross settlement
34.	SBI	State Bank of India
35.	SCARDB	State Co-operative Agriculture and Rural Development Bank
36.	SOP	Standard operating procedure
37.	StCB	State co-operative bank
38.	STCCS	Short-term co-operative credit structure
39.	TGB	Telangana Grameena Bank
40.	UCO	United Commercial Bank
41.	UPI	Unified Payments Interface

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 149 countries with over 370,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details.

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