CHAPTER V

IMPACT OF NEW ECONOMIC POLICY ON THE WORKING OF LATUR DISTRICT CENTRAL COOPERATIVE BANK, LATUR
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5.1 INTRODUCTION

The main objective of this chapter is to make a simple assessment of the impact of the reforms on the Indian banking sector in general and cooperative banks in particular. It has been more than 22 years of the start of the economic reforms in India and financial sector reforms were one of the important parts of the process. The present chapter captures the impact of New Economic Policy on the performance of Latur District Central Cooperative Bank, Latur.

Banking sector plays an important role in the economic development of a country. The banking sector reforms in India were started as a follow up measure of economic liberalization and financial sector reforms in the country. The banking sector being the life line of the economy was treated with utmost importance in the financial sector reforms. The reforms were aimed at to make the Indian banking industry more competitive, versatile, efficient, and productive, to follow international accounting standards and to free from the government's control. The reforms in the banking industry started in the early 1990s have been continued till now.

Several major economic and political changes occurred during the 1970s and 1980s, which affected the developing countries and paved the way for the implementation of IMF-sponsored Structural Adjustment Policies (New Economic Policy) in India in 1991. This was due to a combination of factors such as stagnant agriculture, low levels of industrial growth and diversification, inadequate capital formation, adverse terms of trade in international markets, limits to domestic resource mobilization due to a fairly narrow tax-base, loss making public sector enterprises, over regulated and controlled economy; poor industrial productivity, huge amount of fiscal deficit, huge amount of public debt, poor rating of Indian economy by international agencies, foreign exchange crisis etc.

5.2 NEW ECONOMIC POLICY OF 1991

expenditure, opening of the economy to trade and foreign investment, adjustment of
the exchange rate from fixed exchange rate system to flexible exchange rate system,
deregulation in most markets and the removal of restrictions on entry, on exit, on
capacity and on pricing.

The main objectives of the policy initiatives were -

a. Reducing the government deficit to 6.5 per cent of GDP in 1991-92 and
five per cent in 1992-93, with further reduction thereafter leading to
containment of inflation;

b. Reduction of the current account deficit in the balance of payments.

c. Raising GDP growth to around six per cent by the mid-1990s.

In all the four decades since the nationalization of Indian banking sector saw
banks being taken from its urban confines to vast rural stretches. The expansion of
banking into rural areas meant a phenomenal expansion in terms of number of deposits
and loan accounts.

- The total number of loan accounts shows a rapid increase from about 4 million in
1970 to 60 million in 1990.

- In terms of agriculture accounts the increase was about 1 million in 1970 to 10
million in early 1980.

- Transport and trade also show significant increase.

- Totally neglected areas like small artisans, small scale industry also gets a
significant place.

- By early 1980’s the share of agriculture in credit has risen to 17%, transport
operators about 5% and small scale sector about 12%.

- The regional distribution of branches was also shifted away from Maharashtra,
south India and Gujarat to rest of the country.

- The sharp increase in cash reserve ratio from about 8.3% to 16.8% during the
period of 1977 to 1990’s.

- It is much evident that initial result of taking credit to rural areas was taking
money out of banks but much later with the development of deposit habit that cash
outflow tend to decrease. Therefore the nationalization of Indian banks had and
still has a great effect on the banking industry.
According to bank economists, during the last 45 years of nationalization of Indian banks, the branches of the public sector banks rose 800 per cent from 7,219 to 57,000, with deposits and advances taking a huge jump by 11,000 per cent and 9,000 per cent to Rs. 5,035.96 billion and Rs. 2,765.3 billion respectively. Productivity per employee in respect of business volume (both deposits and advances) has gone up from Rs. 250,000 in 1969 to Rs. 4,780,000 in 1993. Accordingly, profits of these banks went up to Rs. 30 billion in 1993 as against Rs. 90 million at the time of the nationalization.

In revamping and rejuvenating the role and image of cooperatives to establish their rightful place in the changing economic scenario, the Government should come forward to clarify the position of cooperatives. In this task, the Government should take into fold the academicians and thinkers to draft out a new policy frame and agenda for the cooperatives at the earliest. Let the Ninth Five Year Plan not go amiss with an exhaustive policy chapter on "cooperatives". Let it not be lost sight that cooperation offers a tremendous opportunity for economic resurgence of rural India through invoking people's participation in their own development. The World Bank has also called for a thorough review of the cooperative sector under the ambit of sectorial reforms. Failure will lie with only those cooperatives which perform well and withstand competition. Cooperatives which are unable to keep pace with the fast changing scenario will be left behind in the race. While this calls for cooperatives, it also necessitates a shift in the direction and approach of the Government. Some of the suggestions listed above could help in initiating dialogue.

5.3 OBJECTIVES OF NEW ECONOMIC POLICY FOR INDIAN BANKS

The reforms of Indian banks took place with an aim to achieve following major objectives:

1. **Social Welfare** : It was the need of the hour to direct the funds for the needy and required sectors of the Indian economy. Sector such as agriculture, small and village industries were in need of funds for their expansion and further economic development.

2. **Controlling Private Monopolies** : Prior to nationalization many banks were controlled by private business houses and corporate families. It was necessary to check these monopolies in order to ensure a smooth supply of credit to socially desirable sections.
3. **Expansion of Banking**: In a large country like India the numbers of banks existing those days were certainly inadequate. It was necessary to spread banking across the country. It could be done through expanding banking network (by opening new bank branches) in the un-banked areas.

4. **Reducing Regional Imbalance**: In a country like India where we have a urban-rural divide; it was necessary for banks to go in the rural areas where the banking facilities were not available. In order to reduce this regional imbalance banking sector reforms were justified.

5. **Priority Sector Lending**: In India, the agriculture sector and its allied activities were the largest contributor to the national income. Thus these were labeled as the priority sectors. But unfortunately they were deprived of their due share in the credit. Banking sector reforms were urgently needed for catering funds to them.

6. **Developing Banking Habits**: In India more than 70% population used to stay in rural areas. It was necessary to develop the banking habit among such a large population.

### 5.4 IMPACT OF NEW ECONOMIC POLICY ON COOPERATIVE BANKS

Banking Industry in India has always revolved around the traditional function of deposits and credit. Their role has been defined to assist the overall economic growth with majority of shares being controlled by the Government of India in most of the banks. But with the process of privatisation, the banking industry has also undergone tremendous change in the last two decades. The rules of the banking sector have been changing with RBI introducing new norms to make banks more accountable and to adopt the practices followed worldwide.

The new economic policy has four components as-

a) Liberalization

b) Privatization

c) Globalization and

d) Stabilization

Combined of all these is called the Structural Adjustment Programme (SAP).

The SAP has been forced on the economy because of several reasons. They are:

1. Excess of consumption and expenditure over the revenue, resulting in heavy Government borrowing;
2. Growing inefficiency in the use of resources;
3. Over protection;
4. Mismanagement of the firms and the economy;
5. Distortions such as poor technological development and a shortage of foreign exchange; and
6. Imprudent borrowing from abroad and mishandling and mismanagement of foreign exchange reserves.

5.4.1 IMPACT OF LIBERALISATION ON COOPERATIVE BANKS

The Indian banking registered tremendous growth in the post-liberalization era. Since the beginning of 1991, there has been a sea change in the rule, regulation, organization, scope and activity level of Indian financial sector. The Indian banking industry has witnessed a rapid growth after economic reforms. It has shifted from regulated to de-regulated market economy and defined a new role for the banks. All these reforms have changed the Indian banking market from ‘Sellers’ market’ to ‘Buyers’ market’.

The Narasimham Committee, 1991 had recommended several reforms in banking sector with the change wind of financial sector reforms (Sekhar, 2007). Some of the important financial liberalization measures are:

1. Reduction in storage of funds through reduction of CRR and SLR.
2. Introduction of prudential provisioning and Capital Adequacy Norms.
3. Phasing out the directed credit programmes.
4. Deregulation of interest rates.
5. Infusion of competition (Entry of Private Sector Banks).
6. Imparting transparency.
8. Mergers and Acquisitions.
10. Emphasis on corporate governance.

The winds of change gained momentum in the last few years, such as globalization of Indian economy and opening up of financial services under WTO. It is expected that the banking sector will undergo mergers and acquisitions (M&A), consolidation, globalization of operations, development of new technology, best corporate governance practices and universalization.
5.4.2 IMPACT OF PRIVATISATION ON COOPERATIVE BANKS

Privatization is transfer of ownership or control over assets or activities from the public to the private sector. In broad terms, privatization involves greater market force, ensures higher competition, reduces the role of the state in the economic sphere and thus brings in greater private involvement into government activities. It liberalizes different regulations to unleash forces of competition and to induce market forces into the economy. It is also referred to as structural adjustment programmes for the economy as a whole and as an element of broader economic policy. However, in its strict sense, privatization refers to divestiture to private entity. Privatization as one of the policy reforms is meant to improve the efficiency of cooperative banks. To encourage privatization, policy changes such as deregulation of state enterprise, reduction in tariff barriers, creation of appropriate climate to promote private investment in infrastructure, manufacturing etc. provided for new direction and affected almost all the sectors of the economy, including co-operative sector.

The Committee on the Reforms of the Financial System (1991), under the chairmanship of Mr. M. Narasimham had recommended for reforms in the banking sector. Banking and insurance are the two key factors of the financial sector. The Government has welcomed the establishment of private banks and is encouraging privatization of public sector banks and extension of private banks.

5.4.3 IMPACT OF GLOBALISATION ON COOPERATIVE BANKS

Globalization effects the co-operative bank in many way as it increase the competition level among the banks and even introduce the new innovative technology like core banking solution, SMS facilities, and ATM facilities, ABB facilities, but it does not allow the bank to do the deal in foreign exchange transactions. Cooperative banks both urban and rural have created a separated niche for themselves. Cooperative banks play a significant role in creating habits among lower and middle income groups and in rural credit delivery through their extensive networks. Moreover, the financial health of some UCBs has deteriorated due to high level of nonperforming assets while some other are facing financial problems such as low capital base, lack of professionalism in conduct and management, poor recoveries, lack of funds for fresh development, mounting over dues, inadequate internal controls and non-adherence to norm sand regulations and low levels of diversification in business operations. Global
competition is a complex dynamic process which cannot characterize competitive capabilities amongst nations particularly when economics theory and logic rely in restrictive assumptions which have evaporated with open global economy, which toady, is the reality of changing times. If cooperative banks have to capitalize on this opportunity, they have to become globally competitive, be it, cost, quality, delivery or any other business parameter. Some of the innovations needed for surviving in the era of globalisation for the cooperative banks are:-

1. Change of mind set
2. Human resource development
3. Use of information technology
4. Adoption of innovative process technology for manufacturing
5. Value addition to the services and the products
6. Leadership with vision, dedication, commitment and innovative approach to organize the cooperatives.

The innovations will help in transforming the whole system of cooperative management for betterment and cooperatives must not lag behind in keeping pace with the changing socio-economic environment.

5.5 BANKING SECTOR REFORMS UNDER THE NEW ECONOMIC POLICY 1991 IN INDIA

It is a well-known fact that the year 1991 marked the beginning of a new era in economic policy of our country. But the reform measures under the new economic policy, mainly concentrated only in removing the fetters on private enterprises and in stimulating higher economic growth by promoting industrial sector. The rural and agricultural sector remained somewhat neglected and also the effect of economic reforms on the economic fortunes of the common people was overlooked. Throughout the reform decade i.e., from 1991 to 2010, the role and relevance of the cooperative sector remained on the background, in spite of its predominant position in various fields of our national economy. There are at present 5.04 lakh co-operative societies of different type with a membership of 22 crores, covering 100 percent villages and 67 percent rural households. The transition from controlled economy to open competitive economy in the name of globalization or liberalization has thrown a whole lot of challenges to the cooperative sector. It was believed that cooperatives would not be able to survive in the face of stiff competition posed by private sector. In contrast, there
were still few, who regarded co-operation as a dynamic enterprise, which had been able to survive for around 150 years. A study of functioning of cooperative societies in various segments such as agricultural credit, agricultural marketing, fertilizer distribution, agro-processing, dairy and sugar industries has shown that there are some strong and viable co-operatives. But at the same time one must realize the fact that the co-operative structure, as it emerged, has shown the following weaknesses: weak structure at primary level, lack of responsiveness from federal organizations towards the needs of their member organizations, working of different co-operatives in isolation rather than unified system, lack of participation of user-members.

Some of the other weaknesses are lack of professional management, lack of adequate infrastructure, lack of capability to withstand competition, over-dependence on government for financial assistance and restrictive provisions of cooperative law.

In 1991, the India was caught into a deep crisis. The government at this juncture decided to introduce comprehensive economic reforms. The banking sector reforms were part of this package. The main objective of Indian banking sector reforms was to promote a diversified, efficient and competitive financial system with the ultimate goal of improving the allocative efficiency of resources through operational flexibility, improved financial viability and institutional strengthening. Many of the regulatory and supervisory norms were initiated first for the commercial banks and were later extended to other types of financial intermediaries. While reforming the Indian banking system to better health through the introduction of international best practices in prudential regulation and supervision early in the reform process, the main idea was to increase competition in the system gradually. The reforms have focused on removing financial repression through reductions in statutory preemptions, while stepping up prudential regulations at the same time. Furthermore, interest rates on both deposits and lending of banks had been progressively deregulated.

5.5.1 OBJECTIVES OF BANKING SECTOR REFORMS

1. To improve and modernize the organizational systems, procedures and managerial policies.
2. To improve efficiency and effectiveness of the system with particular reference to the economy of operations, accountability and profitability of banking and financial institutions.
3. To achieve a balanced growth of various types of financial institutions in the money market and the capital market of the country.

4. To introduce and evolve an appropriate supervision system with full efficiency.

5. To provide greater competitive vitality into the financial system, so as to enable it to respond more effectively to the emerging credit needs of the economy.

5.5.2 VARIOUS COMMITTEES AND MEASURES UNDERTAKEN ON BANKING SECTOR REFORMS

A. Recommendations of Narasimham Committee on Financial System in 1991

The Narsimham Committee was set up in 1991 in order to study the problems of the Indian financial system and to suggest some recommendations for improvement in the efficiency and productivity of the financial institution.

The committee has given the following major recommendations:-

1. **Reduction in the SLR and CRR**: The committee recommended the reduction of the higher proportion of the Statutory Liquidity Ratio 'SLR' and the Cash Reserve Ratio 'CRR'. Both of these ratios were very high at that time. The SLR then was 38.5% and CRR was 15%. This high amount of SLR and CRR meant locking the bank resources for government uses. It was hindrance in the productivity of the bank. Thus the committee recommended their gradual reduction. SLR was recommended to reduce from 38.5% to 25% and CRR from 15% to 3 to 5%.

2. **Phasing out Directed Credit Programme**: In India, since nationalization, directed credit programmes were adopted by the government. The committee recommended phasing out of this programme.

3. **Interest Rate Determination**: The committee felt that the interest rates in India are regulated and controlled by the authorities. Hence the committee recommended eliminating government controls on interest rate and phasing out the concessional interest rates for the priority sector.

4. **Structural Reorganizations of the Banking Sector**: The committee recommended that the actual numbers of public sector banks need to be reduced.

5. **Establishment of the ARF Tribunal**: The proportion of bad debts and Non-performing asset (NPA) of the public sector Banks and Development Financial Institute was very alarming in those days. The committee recommended the establishment of an Asset Reconstruction Fund (ARF).
6. **Removal of Dual Control** : Those days banks were under the dual control of the Reserve Bank of India (RBI) and the Banking Division of the Ministry of Finance (Government of India). The committee recommended the stepping of this system. It considered and recommended that the RBI should be the only main agency to regulate banking in India.

7. **Banking Autonomy** : The committee recommended that the public sector banks should be free and autonomous.

**Measures Undertaken by Government of India on Recommendations**

On the recommendations of Narasimham Committee, following measures were undertaken by government since 1991 :-

1. **Lowering SLR and CRR** :-

   The high SLR and CRR reduced the profits of the banks. The SLR has been reduced from 38.5% in 1991 to 25% in 1997. This has left more funds with banks for allocation to agriculture, industry, trade etc.

   The Cash Reserve Ratio (CRR) is the cash ratio of a bank’s total deposits to be maintained with RBI. The CRR has been brought down from 15% in 1991 to 4.1% in June 2003. The purpose is to release the funds locked up with RBI.

2. **Prudential Norms** :-

   Prudential norms have been started by RBI in order to impart professionalism in commercial banks. The purpose of prudential norms include proper disclosure of income, classification of assets and provision for Bad debts so as to ensure that the books of commercial banks reflect the accurate and correct picture of financial position. Prudential norms required banks to make 100% provision for all Non-performing Assets (NPAs). Funding for this purpose was placed at Rs. 10,000 Crores phased over 2 years.

3. **Capital Adequacy Norms (CAN)** :-

   Capital Adequacy ratio is the ratio of minimum capital to risk asset ratio. In April 1992 RBI fixed CAN at 8%. By March 1996, all public sector banks had attained the ratio of 8%. It was also attained by foreign banks.

4. **Deregulation Of Interest Rates** :-

   The Narasimham Committee advocated that interest rates should be allowed to be determined by market forces. Since 1992, interest rates has become much simpler and freer.
a) Scheduled Commercial banks have now the freedom to set interest rates on their deposits subject to minimum floor rates and maximum ceiling rates.
b) Interest rate on domestic term deposits has been decontrolled.
c) The prime lending rate of SBI and other banks on general advances of over Rs. 2 lakhs has been reduced.
d) Rate of Interest on bank loans above Rs. 2 lakhs has been fully decontrolled.
e) The interest rates on deposits and advances of all Co-operative banks have been deregulated subject to a minimum lending rate of 13%.

5. Recovery of Debts :-

The Government of India passed the “Recovery of debts due to Banks and Financial Institutions Act 1993” in order to facilitate and speed up the recovery of debts due to banks and financial institutions. Six Special Recovery Tribunals have been set up. An Appellate Tribunal has also been set up in Mumbai.

6. Competition From New Private Sector Banks :-

Now banking is open to private sector. New private sector banks have already started functioning. These new private sector banks are allowed to raise capital contribution from foreign institutional investors up to 20% and from NRIs up to 40%. This has led to increased competition.

7. Phasing Out of Directed Credit :-

The committee suggested phasing out of the directed credit programme. It suggested that credit target for priority sector should be reduced to 10% from 40%. It would not be easy for government as farmers, small industrialists and transporters have powerful lobbies.

8. Access to Capital Market :-

The Banking Companies (Acquisition and Transfer of Undertakings) Act was amended to enable the banks to raise capital through public issues. This is subject to provision that the holding of Central Government would not fall below 51% of paid-up-capital. SBI has already raised substantial amount of funds through equity and bonds.


Scheduled Commercial Banks are given freedom to open new branches and upgrade extension counters, after attaining capital adequacy ratio and prudential accounting norms. The banks are also permitted to close non-viable branches other than in rural areas.

224
10. Local Area banks (LABs) :-

In 1996, RBI issued guidelines for setting up of Local Area Banks and it gave its approval for setting up of 7 LABs in private sector. LABs will help in mobilizing rural savings and in channelling them in to investment in local areas.

11. Supervision Of Commercial Banks :-

The RBI has set up a Board of financial Supervision with an advisory Council to strengthen the supervision of banks and financial institutions. In 1993, RBI established a new department known as Department of Supervision as an independent unit for supervision of commercial banks.

B. Recommendations of Narasimham Committee on Banking Sector Reforms in 1998

The finance ministry of Government of India appointed Mr. M. Narasimham as chairman of one more committee, this time it was called as the committee on banking sector reforms. The committee was asked to “review the progress of banking sector reforms to the date and chart a programme on financial sector reforms necessary to strengthen India’s financial system and make it internationally competitive”. The Narasimham committee on banking sector reforms submitted this report to the government in April 1998. This report covers the entire issues relating to capital adequacy, bank mergers, the condition of global sized banks, recasting of banks boards etc.

The main recommendations of the Narasimham committee on banking sector reforms are as follows:

1. Need For Stronger Banking System: The Narasimham committee has made out a stronger banking system in country, especially in the context of capital account convertibility (CAC) which would involve large amount of inflow and outflow of capital and consequent complications for exchange rate management and domestic liquidity. To handle this India would need a strong resilient banking and financial system.

2. Experiment with The Concept of Narrow Banking: The Narasimham committee is seriously concerned with the rehabilitation of weak public sector banks which have accumulated a high percentage of Non-Performing Assets (NPA), and in some cases, as high as 20% of their total assets. They suggested the concept of narrow banking to rehabilitate such weak banks.
3. **Small Local Banks:** The Narasimham committee has argued that "While two or three banks with an international orientation and 8 to 10 of larger banks should take care of their needs of the large and medium corporate sector and larger of the small enterprises, there will still be a need for a large number of local banks." The committee has suggested the setting up of small local banks which should be confined to states or clusters of districts in order to serve local trade, small industry etc.

4. **Capital Adequacy Ratio:** The Narasimham committee has also suggested that the government should consider raising the prescribed capital adequacy ratio to improve the inherent strength of banks and to improve their risk taking ability.

5. **Public Ownership and Real Autonomy:** The Narasimham committee has argued that government ownership and management of banks does not enhance autonomy and flexibility in working of public sector banks.

6. **Review And Updating Banking Laws:** The Narasimham committee has suggested the urgent need to review and amended the provisions of RBI Act, Banking Regulation Act, State Bank of act etc. so as to bring them on same line of current banking needs.

Apart from these major recommendations, the committee has also recommended faster computerization, technology up-gradation, training of staff, depoliticizing of banks, professionalism in banking, reviewing bank recruitment, etc.

**Measures Undertaken by Government of India on Recommendations**

On the recommendations of Narasimham Committee following reforms have been taken by Government of India :-

1. **New Areas :-**
   
   New areas for bank financing have been opened up, such as :- Insurance, credit cards, asset management, leasing, gold banking, investment banking etc.

2. **New Instruments :-**
   
   For greater flexibility and better risk management new instruments have been introduced such as - Interest rate swaps, cross currency forward contracts, forward rate agreements, liquidity adjustment facility for meeting day-to-day liquidity mismatch.

226
3. Risk Management:—
Banks have started specialized committees to measure and monitor various risks. They are regularly upgrading their skills and systems.

4. Strengthening Technology:—
For payment and settlement system technology infrastructure has been strengthened with electronic funds transfer, centralized fund management system, etc.

5. Increase Inflow of Credit:—
Measures are taken to increase the flow of credit to priority sector through focus on Micro Credit and Self Help Groups.

6. Increase in FDI Limit:—
In private banks the limit for FDI has been increased from 49% to 74%.

7. Universal Banking:—
Universal banking refers to combination of commercial banking and investment banking. For evolution of universal banking guidelines have been given.

8. Adoption Of Global Standards:—
RBI has introduced Risk Based Supervision of banks. Best international practices in accounting systems, corporate governance, payment and settlement systems etc. are being adopted.

9. Information Technology:—
Banks have introduced online banking, E-banking, internet banking, telephone banking etc. Measures have been taken facilitate delivery of banking services through electronic channels.

10. Management of NPAs:—
RBI and central government have taken measures for management of non-performing assets (NPAs), such as Corporate Debt Restructuring (CDR), Debt Recovery Tribunals (DRTs) and Lok Adalts.

11. Mergers And Amalgamation:—
In May 2005, RBI has issued guidelines for merger and Amalgamation of private sector banks.

12. Guidelines For Anti-Money Laundering:—
In recent times, prevention of money laundering has been given importance in international financial relationships. In 2004, RBI revised the guidelines on know your customer (KYC) principles.
13. Managerial Autonomy :-

In February, 2005, the Government of India has issued a managerial autonomy package for public sector banks to provide them a level playing field with private sector banks in India.

14. Customer Service:-

In recent years, to improve customer service, RBI has taken many steps such as - Credit Card Facilities, banking ombudsman, settlement off claims of deceased depositors etc.

15. Base Rate System of Interest Rates:-

In 2003, the system of Benchmark Prime Lending Rate (BPLR) was introduced to serve as a benchmark rate for banks pricing of their loan products so as to ensure that it truly reflected the actual cost. However the BPLR system fell short of its objective. RBI introduced the system of Base Rate since 1st July, 2010. The base rate is the minimum rate for all loans. For banking system as a whole, the base rates were in the range of 5.50% - 9.00% as on 13th October, 2010.

5.6 REFORMS IN THE BANKING REGULATION ACT, 1949

Consequent upon the implementation of the recommendations of the Committee on Revival of the Cooperatives, certain amendments to the BR Act would be required and these would include the following aspects:

- All cooperative banks would be on par with the commercial banks as far as regulatory norms are concerned;

- RBI will prescribe fit and proper criteria for election to Boards of cooperative banks. Such criteria would however not be at variance with the nature of membership of primary cooperatives which constitute the membership of the DCCBs and SCBs;

- However, as financial institutions, these Boards would need minimum support at the Board level. Hence, the RBI will prescribe criteria for professionals to be on the Boards of cooperative banks. In case members with such professional qualifications or experience do not get elected in the normal electoral process, then the board will be required to co-opt such professionals to the board and they would have full voting rights;

- The CEOs of the cooperative banks would be appointed by the respective banks themselves and not by the State government. However, as these are
banking institutions, RBI will prescribe the minimum qualifications of the CEO to be appointed and the name proposed by the cooperative bank for the position of CEO would have to be approved by RBI;

- Cooperatives other than cooperative banks as approved by the RBI shall not accept non-voting member deposits. Such cooperatives would also not use words like "bank", "banking", "banker" or any other derivative of the word "bank" in their registered name.

5.7 GUIDELINES ON CODE OF STANDARDS AND FAIR PRACTICES FOR SCBS AND DCCBS

The banking sector has also gone a sea change with the introduction of automation, new payment system, expansion of network and efficient services. In this direction the Reserve Bank of India constituted a Committee on Procedures and Performance Audit on Public Services (CPPAPS) based on whose recommendations the Indian Banks' Association (IBA) formulated certain policy guidelines on the rights of depositors, settlement of claims in deceased’s account, operation of lockers in the event of the death of the locker hirer etc. The Reserve Bank of India constituted ‘Committee on Legal Aspects of Bank Frauds’ in 2001 under the Chairmanship of Dr. L. N. Mitra. One of the important recommendations of the said committee was to develop ‘Best Practice Code’ to uphold to principles of ‘Corporate Governance’, by all banks. Subsequently, IBA suggested ‘Code of Fair Practices’ to all its member banks leading to the commercial banks formulating banks specific Code of Fair Practices. Meanwhile, RBI also listed out Best Practices to be followed by the urban cooperative banks.

National Federation of State Cooperative Banks (NAFSCOB) prepared ‘Bench Marking Best Practices’ for State Cooperative Banks (SCBs) and their affiliates in 2005. The Board of Directors of NAFSCOB who perused the said document had resolved to initiate necessary steps for evolving ‘Code of Best Practices’ in all the SCBs and their affiliates.

Recently, NABARD had desired NAFSCOB to consider evolving guidelines on Codes of ‘Standards and Fair Practices Code for SCBs and DCCBs’ covering all aspects of banking and other services rendered by the SCBs and DCCBs. The Board of Directors of NAFSCOB in their meeting held at Bangalore on 26.02.2008, constituted a Working Group to formulate an appropriate ‘Model Guidelines on Code
of Standards and Fair Practices for SCBs and DCCBs’. (The composition of the Working Group and Special Invitees is given in the Annexure). Accordingly, the Working Group has formulated ‘Draft Model Guidelines on Code of Standards and Fair Practices for SCBs and DCCBs’ for appropriate adoption by the SCBs and DCCBs to ensure better customer services.


5.8 PRUDENTIAL NORMS ON INCOME RECOGNITION, ASSET CLASSIFICATION AND PROVISIONING APPLICABLE TO DCCBs

In line with the international practices and as per the recommendations made by the Committee on Financial System (Chairman Shri M. Narasimham), the Reserve Bank of India has introduced, in a phased manner, prudential norms for income recognition, asset classification and provisioning for the advances portfolio of the banks so as to move towards greater consistency and transparency in the published accounts. The policy of income recognition should be objective and based on record of recovery rather than on any subjective considerations. Likewise, the classification of assets of banks has to be done on the basis of objective criteria which would ensure a uniform and consistent application of norms. Also, the provisioning should be made on the basis of classification of assets based on the period for which the asset has remained non-performing/overdue as also availability of security and its realisable value.

RBI issued guidelines on NPA for DCCBs from 1996-97. As per those guidelines LDCC Bank made provisions for NPA in the annual financial statements from 31st March 1997. LDCC Bank’s Head Office collects the NPA related information from every branch and compiles them in a prescribed format issued by RBI.

In the circulars dated 10.10.2000, 30.07.2008, 7.11.2008, RBI issued the prudential norms on income recognition and asset classification to all DCCBs. In response to these circulars, LDCC Bank issued circular no. Audit-
Banking/NPA/6959/2000-01 dated 28.02.2001 regarding prudential norms to all its branches.

NEED OF PRUDENTIAL NORMS

• Balance sheet should reflect a bank's actual financial position.
• A proper system for recognition of income, classification of assets and provisioning for bad debts on prudential basis is necessary.
• Committee on Financial system (Narasimham Committee) has recommended that the income recognition should be objective rather than subjective and based on actual recovery.
• Uniform application of the rules.

CENTENTS OF THE PRUDENTIAL NORMS

The Prudential Norms comprise of:

a. Income Recognition Norms
b. Assets Classification Norms
c. Provisioning Norms
d. Capital Adequacy Norms

DEFINITION OF NON-PERFORMING ASSET (NPA)

An asset becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is defined generally as a credit facility where-

• Interest and / or installment of principal remain overdue for more than 90 days in respect of a term-loan.
• The account remains 'out of order' for more than 90 days, in respect of overdraft/cash credit (OD/ CC).
• the bill remains overdue for more than 90 days in the case of bill purchased and discounted.
• interest and / or instalment of principal remains overdue for two harvest seasons, but for a period not exceeding two half years in the case of an advance granted for agricultural purposes.
• any amount to be received remains overdue for more than 90 days in respect of other accounts.
5.8.1 Income Recognition Policy

- The policy of income recognition should be based on record of recovery and therefore unrealised income should not be taken to Profit and Loss Account by SCBs/CCBs.

- However, in the case of certain States where the State Cooperative Act/ Rules/ Audit Manual provide for taking such unrealised interest to the income head in the P & L A/c, it is necessary for those SCBs/CCBs to make full provisioning for equivalent amount by charging to P & L A/c.

- In other words, the SCBs/CCBs which are charging interest on all overdue loans and if such interest remains unrealised the same may be taken to income account provided matching provision is fully made for the same by charging to P & L A/c.

- Fee, commission and other income may be treated as income only when the account is classified as 'standard'.

- Besides, a matching provision should be created to the extent such items were treated as income in the previous year but not realised in the subsequent year.

- Fees and commission earned by banks as a result of renegotiation or rescheduling of outstanding debts should be recognised on an accrual basis over the period of time covered by the renegotiated or rescheduled extension of credit.

- Even in case of credit facilities backed by Government guarantee, overdue interest can be taken to P & L account only if matching provision is made.

- The bills purchased/discounted should be treated as overdue, if the same remain unpaid. Interest may be charged to such bills and the same may be taken to P & L A/c provided matching provision is made.

- Accrued interest on investments may be taken to P & L Account till maturity. However, the same has to be provided for fully, if interest is not realised on due date/date of maturity.

5.8.2 Norms for Asset Classification

Classification of agricultural and non-agricultural loans is required to be done into four categories, on the basis of age of overdues, as under:

a. Standard Assets

Standard asset is one which does not disclose any problem and which does not carry more than normal risk attached to business. Thus, in general, all the current loans, agricultural and non-agricultural loans which have not become NPA may be treated as standard asset.
b. Sub-Standard Assets

A Non-performing asset may be classified as sub-standard on the basis of the following criteria:

- An asset which has remained overdue for a period not exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as substandard.
- In case of all types of term loans, where instalments are overdue for a period not exceeding 3 years, the entire outstanding in term loan should be treated as substandard.
- An asset, where the terms and conditions of the loans regarding payment of interest and repayment of principal have been renegotiated or rescheduled, after commencement of production, should be classified as sub-standard and should remain so in such category for at least one year of satisfactory performance under the renegotiated or rescheduled terms.
- In other words, the classification of an asset should not be upgraded merely as a result of rescheduling unless there is satisfactory compliance of the above condition.

c. Doubtful Asset

A Non-Performing Asset may be classified as doubtful on the basis of following criteria:

- An asset which has remained overdue for a period exceeding 3 years in respect of both agricultural and non-agricultural loans should be treated as doubtful.
- In case of all types of term loans, where installments are overdue for more than 3 years, the entire outstanding in term loan should be treated as doubtful.
- As in the case of sub-standard assets, rescheduling does not entitle a bank to upgrade the quality of advance automatically.

d. Loss Asset

Loss assets are those where loss is identified by the bank / auditor / RBI / NABARD inspectors but the amount has not been written off wholly or partly. In other words, an asset which is considered unrealisable and / or of such little value that its continuance as a doubtful asset is not worthwhile, should be treated as a loss asset.

Broadly speaking, classification of assets into above categories should be done taking into account the degree of well-defined credit weakness and the extent of dependence on collateral security for realisation of dues. Banks should establish
appropriate internal systems to eliminate the tendency to delay or postpone the
identification of NPAs, especially in respect of high value accounts.

5.8.3 PROVISIONING NORMS ON ASSET CLASSIFICATION

Provisioning is necessary considering the erosion in the value of security charged to the banks over a period of time. Therefore, after the assets of CCBs/SCBs are classified into various categories (viz., standard, sub-standard, doubtful and loss assets) necessary provision has to be made for the same. The details of provisioning requirements in respect of various categories of assets are mentioned below:

a. Standard Asset

- Banks are required to make provision on Standard assets agricultural and SME sectors at a minimum of 0.25% of the total outstanding in this category.
- For all other Standard Assets, they have to make a general provision at a minimum of 0.40 per cent.
- The provision made on Standard assets may not be reckoned as erosion in the value of assets and will form part of owned funds of the bank.
- The advances granted against term deposits, National Savings Certificate (NSC) eligible for surrender, Kisan Vikas Patra (KVP), Indira Vikas Patra (IVP), Life policies, Staff loans would attract provision of 0.25% prescribed for Standard assets.
- The provision towards standard assets need not be netted from gross advances and should be shown separately as "Contingent provision against Standard Assets" under "Other liabilities and provisions - others".

b. Sub-standard Asset

A general provision of 10% of total outstandings in this category may be made.

c. Doubtful Assets

- 100% is to be made to the extent to which the advance is not covered by realisable value of securities to which the bank has a valid recourse and the realisable value is estimated on a realistic basis.
- Over and above this, provision is to be made depending upon the period for which an asset has remained overdue, 20% to 100% of the secured portion on the following basis:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>% Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overdue above 3 years, and upto 4 years</td>
<td>20</td>
</tr>
<tr>
<td>Overdue over 4 years, but not exceeding 6 years</td>
<td>30</td>
</tr>
<tr>
<td>Overdue exceeding 6 years.</td>
<td>100</td>
</tr>
</tbody>
</table>

d. Loss Asset

- The entire loss asset should be written off.
- If the assets are permitted to be retained in the books for any reasons, 100% of the outstanding thereof should be fully provided for.

All agricultural loans may be treated as fully secured as the same are disbursed against charge on land as provided in the respective State Cooperative Societies/ Acts/ Rules.

SCBs/DCCBs are required to voluntarily set apart provisions much above the minimum prudential levels after seeking their Board’s approval.

With effect from 31 March 2004, SCBs and CCBs should move over to charging of interest on monthly rests by 01 April 2004 except for agricultural loans and loans for activities allied to agriculture. However, banks should continue to classify an account as NPA only if interest charged during any quarter is not serviced fully within 90 days from the end of the quarter.

As per the prudential norms of RBI for DCCBs, for the year 2012-13, the provision required on these assets were – on Standard Assets Rs. 496.10 lakhs (0.40 paisa per hundred), on Sub-standard Asset Rs.4.11 lakhs (10% of Sub-standard Assets), on Doubtful Assets Rs. Rs. 3131.77 (as per norms), on Loss Assets Rs.2183.66 lakhs (100% of Loss Asset). The total provision required on these assets was Rs. 5815.53 lakhs during the year 2012-13.

During the year 2012-13, actual provision as per the prudential norms made by LDCC Bank, Latur on total assets were Rs. 7866.81 lakhs whereas the required provision was Rs. 5815.53 lakhs. LDCC Bank made the excess provision of Rs. 2051.28 lakhs.
Table No. 5.1
Asset Classification and Provisioning Required for
LDCC Bank, Latur as on 31st March 2013
(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Classification of Asset</th>
<th>Amount</th>
<th>Required Provision as per norms by RBI (%)</th>
<th>Required Provision as per norms by RBI</th>
<th>Actual Provision Made by LDCC Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Standard Asset</td>
<td>124024.95</td>
<td>0.40 paise per hundred</td>
<td>496.10</td>
<td>496.17</td>
</tr>
<tr>
<td>2.</td>
<td>Sub-standard Asset</td>
<td>41.06</td>
<td>10%</td>
<td>4.11</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Doubtful Asset</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a.</td>
<td>D- Tier I</td>
<td>4.35</td>
<td>20%</td>
<td>0.87</td>
<td></td>
</tr>
<tr>
<td>b.</td>
<td>D- Tier II</td>
<td>4.36</td>
<td>30%</td>
<td>1.31</td>
<td></td>
</tr>
<tr>
<td>c.</td>
<td>D- Tier III</td>
<td>53.84</td>
<td>100%</td>
<td>53.84</td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>D- Tier I (Unsecured)</td>
<td>3075.75</td>
<td>100%</td>
<td>3075.75</td>
<td>7370.64</td>
</tr>
<tr>
<td>4.</td>
<td>Loss Asset</td>
<td>2183.56</td>
<td>100%</td>
<td>2183.56</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>129387.87</td>
<td></td>
<td>5815.53</td>
<td>7866.81</td>
</tr>
</tbody>
</table>

(Source: Data compiled from Reports of LDCC Bank, Latur)

5.8.4 MINIMUM CAPITAL ADEQUACY NORMS TO STATE AND CENTRAL COOPERATIVE BANKS (STCBS/CCBS) GUIDELINES ISSUED BY RBI

As per to the circular **RPCD.CO.RF.BC.40/07.38.03/2007-08** dated **December 4, 2007** wherein the State and Central Cooperative Banks had been advised to disclose the level of Capital to Risk weighted Assets Ratio (CRAR) as on March 31, 2008 and thereafter every year as ‘Notes on Accounts’ to their Balance Sheets. It was also advised that the roadmap for achieving the desired level of CRAR norms would be communicated in due course.

In the context of financial stability of the rural cooperative banking system and to strengthen the capital structure of State and Central Cooperative Banks
(SCBs/CCBs), it is decided to prescribe a minimum CRAR for SCBs/CCBs. Accordingly, StCBs/CCBs are advised to achieve a minimum CRAR of 9% in a phased manner over a period of three years as indicated below:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>As on March 31, 2015</td>
<td>7%</td>
</tr>
<tr>
<td>As on March 31, 2017</td>
<td>9%</td>
</tr>
</tbody>
</table>

SCBs/CCBs are advised to maintain a mandated minimum CRAR of 7% on an ongoing basis with effect from March 31, 2015 and 9% with effect from March 31, 2017.

Further, it is decided that SCBs/CCBs be permitted to issue Long Term (Subordinated) Deposits (LTD) and Innovative Perpetual Debt Instruments (IPDI) to facilitate raising of capital funds (Tier I and Tier II) for the purpose of compliance with the prescribed CRAR norms. The guidelines for issuance of LTD and IPDI are set out in (Annex-I) and (Annex-II) respectively.

The other contents of the circular RPCD.CO.RF.BC.40/07.38.03/2007-08 dated December 4, 2007 remain unchanged.

The Capital to Risk weighted Assets Ratio (CRAR) of LDCC Bank, Latur is provided below:

<table>
<thead>
<tr>
<th>CRAR of LDCC Bank, Latur</th>
</tr>
</thead>
<tbody>
<tr>
<td>As on March 31, 2013</td>
</tr>
<tr>
<td>As on March 31, 2014</td>
</tr>
</tbody>
</table>

LDCC Bank, Latur has maintained the CRAR ratios more than level prescribed by RBI and NABARD. It is the indicator of good financial position of bank.

5.9 INVESTMENT POLICY FOR SCBs / DCCBs

With the emergence of LPG and adoption of New Economic Policy, RBI issues various operational guidelines to banks on the important functions of bank.


Keeping in view the various regulatory/statutory and the bank's own internal requirements, UCBs should lay down, with the approval of their Board of Directors, the broad Investment Policy and objectives to be achieved while undertaking investment transactions. The investment policy should be reviewed each year. The Board/Committee/Top Management should actively oversee investment transactions. Banks should not undertake any transactions on behalf of Portfolio Management.
Scheme (PMS) clients in their fiduciary capacity, and on behalf of other clients, either as custodians of their investments or purely as their agents.

The bank’s investment policy should clearly define the authority to put through deals, procedure to be followed for obtaining sanction of the appropriate authority, putting through deals, fixing various prudential exposure limits, and reporting system.

The investment policy of the bank should include guidelines on the quantity (ceiling) and quality of each type of security to be held on its own investment account. Bank should clearly indicate the authority to put through investment deals and the reporting system to be adopted. It should be prepared strictly observing the instructions issued by the Registrar of Co-operative Societies and the Reserve Bank from time to time and clearly spell out the internal control mechanism, accounting standards, audit, and review and reporting system to be evolved. All the transactions should be clearly recorded indicating full details. The Top Management should undertake a periodic review of investment transactions in a critical manner and put up large transactions to the Board, for information.

A copy of the internal investment policy guidelines framed by the bank with the approval of its Board should be forwarded to the Regional Office concerned of the Reserve Bank, certifying that the policy is in accordance with the prescribed guidelines and the same has been put in place. Subsequent changes, if any, in the Investment Policy should also be advised to the Regional Office of the Reserve Bank.

Risk instructions are imposed on banks by RBI, considering the high risk involved in investment portfolio and the smaller strength of the co-operative banks in absorbing such shocks. Mostly, the deposits come from weaver and small individuals, therefore, the interests of the depositors are protected. NABARD issues the guidelines to District Central Co-operative Banks as these banks are under its regulatory control. NABARD was established in July, 1982 as a development bank. It supervises the rural co-operative structure. As such Regional Rural Banks (RRBs), State Co-operative Banks (SCBs) and District Banks (DCCBS) come under its regulations.

Considering high risk involved in investment and the low shock absorbing capacity of the Cooperative banks to face risk in investment RBI issues guidelines. NABARD issues similar guidelines for DCC Banks and State Cooperative Banks. Guidelines stipulate various operational and control aspects. Banks should decide authorities to take investment decisions. Banks should develop internal skills.
Constant market watch for prices is required. There should be investment policy that should be reviewed from time to time. The copy of policy needs to be submitted to RBI. Sale of security must be after holding it. No transactions should be done with broker. Only principal transactions should be done. Concurrent auditors should audit the procedural part and about price of sale purchase transactions. They should report to the Chairman and report must be placed before the Board. If the concurrent auditors find any irregularity, they should report it to RBI.

Fund account and investment account must tally daily. No transaction in Government security in physical form. No buy-back arrangement purchase is done. Diversified portfolio to minimize the risk should be maintained. Categorization as AFS, AFT and HTM should be done with mark to market provisioning on AFS and AFT. No investment in mutual funds expects the debt market mutual fund and money market mutual fund. Non-SLR securities being credit substitutes should be subjected to credit appraisal norms. Banks should not make investments in security receipts, certificates, bonds and debentures issued by a securitization/reconstruction company.

**Table No. 5.2** provides the details of SLR Investment and Non-SLR Investment of LDCC Bank, Latur during the period 2005-06 to 2012-13. During the year 2005-06, the SLR Investment stood at Rs. 12786.82 lakhs which rose to Rs. 31660.57 lakhs during the year 2012-13 presenting an average annual increase of Rs. 24232.50 lakhs.

Non-SLR Investment exhibited the same growth trend. During the year 2005-06, the Non-SLR Investment was Rs. 568.99 lakhs which increased to Rs. 903.79 lakhs during the year 2012-13 indicating an average annual growth of Rs. 805.06 lakhs. The total investment of the LDCC Bank presented a continuous increase from Rs. 13355.81 lakhs to Rs. 32564.36 lakhs during the year 2005-06 to 2012-13. During the same period, the SLR Investment captured 96% and Non-SLR Investment captured 4% portion of the total investment respectively.
Table No. 5.2

Analysis of SLR and Non-SLR Investments of LDCC Bank, Latur

(Rs. in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>SLR Investment</th>
<th>Non-SLR Investment</th>
<th>Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>12786.82</td>
<td>568.99</td>
<td>13355.81</td>
</tr>
<tr>
<td></td>
<td>(95.73)</td>
<td>(4.27)</td>
<td>(100)</td>
</tr>
<tr>
<td>2006-07</td>
<td>14076.82</td>
<td>593.99</td>
<td>14670.81</td>
</tr>
<tr>
<td></td>
<td>(95.95)</td>
<td>(4.05)</td>
<td>(100)</td>
</tr>
<tr>
<td>2007-08</td>
<td>15246.82</td>
<td>825.49</td>
<td>16072.31</td>
</tr>
<tr>
<td></td>
<td>(94.87)</td>
<td>(5.13)</td>
<td>(100)</td>
</tr>
<tr>
<td>2008-09</td>
<td>20233.5</td>
<td>881.49</td>
<td>21124.91</td>
</tr>
<tr>
<td></td>
<td>(95.78)</td>
<td>(4.22)</td>
<td>(100)</td>
</tr>
<tr>
<td>2009-10</td>
<td>43008.5</td>
<td>881.49</td>
<td>44714.99</td>
</tr>
<tr>
<td></td>
<td>(96.18)</td>
<td>(3.82)</td>
<td>(100)</td>
</tr>
<tr>
<td>2010-11</td>
<td>25246.25</td>
<td>881.49</td>
<td>26127.74</td>
</tr>
<tr>
<td></td>
<td>(96.62)</td>
<td>(3.38)</td>
<td>(100)</td>
</tr>
<tr>
<td>2011-12</td>
<td>31600.57</td>
<td>903.79</td>
<td>32504.36</td>
</tr>
<tr>
<td></td>
<td>(97.21)</td>
<td>(2.79)</td>
<td>(100)</td>
</tr>
<tr>
<td>2012-13</td>
<td>31660.57</td>
<td>903.79</td>
<td>32564.36</td>
</tr>
<tr>
<td></td>
<td>(97.22)</td>
<td>(2.78)</td>
<td>(100)</td>
</tr>
<tr>
<td>Total</td>
<td>193860</td>
<td>6440.52</td>
<td>201135</td>
</tr>
<tr>
<td></td>
<td>(96.38)</td>
<td>(3.62)</td>
<td>(100)</td>
</tr>
<tr>
<td>Average</td>
<td>24232.5</td>
<td>805.065</td>
<td>25141.9</td>
</tr>
</tbody>
</table>

(Source: Annual Reports of LDCC Bank, Latur)

Note: Figures in bracket indicates percentage to total.

5.9.1 SLR INVESTMENT BY LDCC BANK, LATUR

As per the Banking Regulation Act 1949 section 24, co-operative banks have to maintain 25% amount of total liabilities of bank in Govt. / Trust’s debentures, NABARD Bonds or Maharashtra State Co-op Bank Ltd in fixed deposits.

NABARD issued the guidelines regarding investment in the letter dated 27.06.2008 investment should be made in maximum profitable ventures / Items.

LDCC Bank invests in MSC Bank in Fixed Deposits for fulfilling the norms if SLR therefore minimizing the losses due to reduction in interest rates by MSC Bank, LDCC Bank Latur has decided to invest the amount in Govt. securities which gives 9% yield.

Total liabilities of bank includes Net Demand and Time Liabilities (NDTL) deposits with bank and other liabilities on 28.02.2014, the total liabilities of LDCC Bank were Rs. 1064.34 crores and it is compulsory to invest Rs. 266.08 crores for completion of SLR.
At the end of Feb 2014, LDCC Bank has invested Rs. 179.84 crores in Fixed Deposits of Maharashtra State Cooperative Bank and remaining amount in 364 days treasure bills. LDCC Bank invested totally Rs. 289.60 crores for fulfilling the requirements of SLR in MSC Bank / Govt. securities, treasury bill, Cash Management Bonds of RBI.

Table No. 5.3

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Date of Investment</th>
<th>Investment Amount (In Lakhs)</th>
<th>Due Date</th>
<th>ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Maharashtra State Coop Bank</td>
<td>23.07.2013</td>
<td>150.00</td>
<td>23.07.2014</td>
<td>7%</td>
</tr>
<tr>
<td>2</td>
<td>Maharashtra State Coop Bank</td>
<td>08.08.2013</td>
<td>50.00</td>
<td>08.08.2014</td>
<td>7%</td>
</tr>
<tr>
<td>3</td>
<td>Maharashtra State Coop Bank</td>
<td>08.09.2013</td>
<td>200.00</td>
<td>08.09.2014</td>
<td>7%</td>
</tr>
<tr>
<td>4</td>
<td>Maharashtra State Coop Bank</td>
<td>12.09.2013</td>
<td>100.00</td>
<td>12.09.2014</td>
<td>7%</td>
</tr>
<tr>
<td>5</td>
<td>Maharashtra State Coop Bank</td>
<td>17.10.2013</td>
<td>300.00</td>
<td>17.10.2014</td>
<td>7%</td>
</tr>
<tr>
<td>6</td>
<td>Maharashtra State Coop Bank</td>
<td>29.10.2013</td>
<td>230.00</td>
<td>29.10.2014</td>
<td>7%</td>
</tr>
<tr>
<td>7</td>
<td>364 Days T.Bill 20.03.2014</td>
<td>28.08.2013</td>
<td>2362.06</td>
<td>30.01.2014</td>
<td>10.50%</td>
</tr>
<tr>
<td></td>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>4338.46</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


5.9.2 NON-SLR INVESTMENT OF LDCC BANK, LATUR

As per the notification issued by RBI and Maharashtra State Co-op Act 1960, (Section 70) every DCCB have to invest in Reserve Fund and Agriculture Credit Stabilization Fund for completion of Non-SLR norms.

At the end of Feb- 2014, LDCC Bank Latur has invested Rs. 10.30 crores in MSC Bank for reserve fund and Rs. 33.08 crores in treasury Bills and Government securities. LDCC Bank, Latur has invested totally Rs. 43.38 crores for Non-SLR. Along with this, LDCC Bank invested Rs. 1.30 crores for Agriculture Credit Stabilization Fund in MSC Bank.
Table No. 5.4
Details of Investment made for Agriculture Stabilization Fund (Non SLR) at the end February 2014

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Date of Investment</th>
<th>Investment Amount (In Lakhs)</th>
<th>Due Date</th>
<th>Rate of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Maharashtra State Co-operative Bank</td>
<td>18.06.2013</td>
<td>130.00</td>
<td>18.06.2014</td>
<td>7 %</td>
</tr>
</tbody>
</table>

**TOTAL**

130.00


5.9.3 INVESTMENT MADE IN SHORT TERM DEPOSITS (NON SLR)

LDCC Bank is making the monthly salary payments of the employees of Zilla Parishad, Education Department and other Government employees. For this, the respective departments are depositing required funds in LDCC Bank, Latur. The time gap between deposits of funds and making the salary payment is nearly of 5 to 6 days. And in these days that funds are not utilized and remain unproductive. Hence, LDCC Bank Latur invests these fund in short term deposits in Axis Bank, ICICI Bank, State Bank of India, Development Credit Bank, Branch Nanded, Marathwada Gramin Bank and Ratnakar Bank, Solapur and earns interest.

At the end of Feb 2014, the investment in deposits of LDCC Bank, Latur were Rs. 125.03 crores. Its details are as-
Table No. 5.5
Details of Investment Made In Short Term Deposits (Non SLR) at The End of February 2014

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>Date of Investment</th>
<th>Investment Amount (In Lakhs)</th>
<th>Due Date</th>
<th>Rate of Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IDBI Bank, Latur</td>
<td>15.02.2014</td>
<td>300.00</td>
<td>02.04.2014</td>
<td>9.25%</td>
</tr>
<tr>
<td>2</td>
<td>IDBI Bank, Latur</td>
<td>17.02.2014</td>
<td>1000.00</td>
<td>05.04.2014</td>
<td>9.25%</td>
</tr>
<tr>
<td>3</td>
<td>IDBI Bank, Latur</td>
<td>17.02.2014</td>
<td>800.00</td>
<td>04.03.2014</td>
<td>7.75%</td>
</tr>
<tr>
<td>4</td>
<td>IDBI Bank, Latur</td>
<td>18.02.2014</td>
<td>600.00</td>
<td>01.03.2014</td>
<td>7.75%</td>
</tr>
<tr>
<td>5</td>
<td>IDBI Bank, Latur</td>
<td>20.02.2014</td>
<td>1000.00</td>
<td>07.04.2014</td>
<td>9.25%</td>
</tr>
<tr>
<td>6</td>
<td>IDBI Bank, Latur</td>
<td>20.02.2014</td>
<td>600.00</td>
<td>05.03.2014</td>
<td>7.75%</td>
</tr>
<tr>
<td>7</td>
<td>IDBI Bank, Latur</td>
<td>22.02.2014</td>
<td>500.00</td>
<td>06.03.2014</td>
<td>7.75%</td>
</tr>
<tr>
<td>8</td>
<td>IDBI Bank, Latur</td>
<td>26.02.2014</td>
<td>900.00</td>
<td>07.03.2014</td>
<td>7.75%</td>
</tr>
<tr>
<td>9</td>
<td>Ratnakar Bank Ltd., Solapur</td>
<td>28.01.2014</td>
<td>501.00</td>
<td>09.04.2014</td>
<td>9.25%</td>
</tr>
<tr>
<td>10</td>
<td>Ratnakar Bank Ltd., Solapur</td>
<td>29.01.2014</td>
<td>600.00</td>
<td>10.04.2014</td>
<td>9.25%</td>
</tr>
<tr>
<td>11</td>
<td>Ratnakar Bank Ltd., Solapur</td>
<td>06.02.2014</td>
<td>600.00</td>
<td>02.04.2014</td>
<td>9.99%</td>
</tr>
<tr>
<td>12</td>
<td>Ratnakar Bank Ltd., Solapur</td>
<td>12.02.2014</td>
<td>1002.48</td>
<td>03.03.2014</td>
<td>10.00%</td>
</tr>
<tr>
<td>13</td>
<td>Ratnakar Bank Ltd., Solapur</td>
<td>17.02.2014</td>
<td>1000.00</td>
<td>11.04.2014</td>
<td>10.00%</td>
</tr>
<tr>
<td>14</td>
<td>Ratnakar Bank Ltd., Solapur</td>
<td>17.02.2014</td>
<td>1000.00</td>
<td>14.04.2014</td>
<td>10.00%</td>
</tr>
<tr>
<td>15</td>
<td>Ratnakar Bank Ltd., Solapur</td>
<td>21.02.2014</td>
<td>800.00</td>
<td>09.04.2014</td>
<td>10.00%</td>
</tr>
<tr>
<td>16</td>
<td>Development Credit Bank, Nanded</td>
<td>17.02.2014</td>
<td>500.00</td>
<td>04.04.2014</td>
<td>9.35%</td>
</tr>
<tr>
<td>17</td>
<td>Janta Coop Bank Ltd., Pune, Latur</td>
<td>12.02.2014</td>
<td>800.00</td>
<td>30.04.2014</td>
<td>8.75%</td>
</tr>
</tbody>
</table>

Total 12503.48


During the period April 2013 to Feb 2014, LDCC Bank invested the extra funds in Non-SLR investments and earned the interest of Rs. 3.98 crores.

5.10 ASSET LIABILITY MANAGEMENT (ALM) IN DCCBs
Circular No. 127 / DOS - 26 / 2008 dated 30 July 2008 Ref. No. NB.DoS.HO.POL/1655 /P-108/2008-09 To The Chief Executive Officer/General Manager All 31
District central Cooperative Banks regarding Introduction of Asset-Liability Management (ALM) in District Central Cooperative Banks (DCCBs)

The District Central Cooperative Banks are now operating in a fairly deregulated environment and are required to determine their own interest rates on their deposits and advances. The interest rates on banks' investments in Government and other permissible securities are also now market-related. Intense competition in business, involving both the assets and liabilities, together with increasing volatility in the domestic interest rates has brought pressure on the management of banks to maintain an optimal balance between spread, profitability and long-term viability. Imprudent liquidity management can put banks' earnings and reputation at great risk. Therefore, there is a need for a comprehensive approach towards management of banks' balance sheets and arriving at their business decisions, based on sound risk management systems with the ultimate objective of protecting the interests of depositors and stakeholders. It is important that District Central Cooperative Banks introduce effective Asset-Liability Management (ALM) systems to address the emerging issues, particularly liquidity and interest rate risks.

The Board of Supervision (for SCBs, DCCBs and RRBs), after studying the progress of the system in the five SCBs and 12 RRBs which had introduced ALM system with effect from 01 April 2007 on a pilot basis, in its 36th meeting held on 27 March 2008, has decided to introduce the ALM system in all the remaining SCBs and RRBs, immediately and in DCCBs in a phased manner. While ALM concept has been extended to all the remaining SCBs and RRBs with effect from 01 August 2008, it has been decided to introduce the same in selected 31 District Central Cooperative Banks with effect from 01 September 2008.

On way to implement ALM, the SCBs are expected to:

i. Take up a review the availability of computer infrastructure in your bank;

ii. Take up a review of availability of suitable manpower for smooth implementation of the system in your bank, on a sustainable basis;

iii. Identify a suitable Officer being conversant with the subject and having knowledge of computer to function as the Nodal Officer for implementing the ALM system and advise the details about his name, designation, telephone/Mobile number, e-mail address to our RO with a copy endorsed to us;

iv. Get the ALM policy approved by the Board of Directors of your bank;
v. Constitute an Asset-Liability Committee (ALCO) which will review the implementation of the ALM system in the bank, on a regular basis;

vi. Start generating the reports as required under the system;

vii. Take steps for capacity building/Knowledge Management (KM) of the Nodal Officer and other officers to be involved; and

viii. Upgrade the Management Information System (MIS) suitably for preparation/internalisation of the reports.

LDCC Bank, Latur has formed an Asset-Liability Committee (ALCO) for the monitoring the implementation of ALM system in the bank on regular basis. Managing Director of LDCC Bank is the chairman and the Departmental Managers of each department are members of this ALCO. Board of Directors of LDCC Bank, Latur has given approval to constitute ALCO in their meeting held on 08.03.2014. Bank decided to conduct the meetings of this ALCO once in every three months and discuss the matters in detail related with liquidity, profitability, deposits, loan policy, loan disbursement, rate of interest, currency and market trends, etc. as per the guidelines of RBI. The main components of ALCO are -

1. Demand Deposit
2. Time Deposit

The core aspect of ALCO is to return the deposits accepted from customer within stipulated time.

In the meeting held on 24.03.2014 of ALCO of LDCC Bank, Latur following matters were discussed in detail:

1. Investments made at the end of February 2014
2. Loan disbursement at the end of February 2014
3. Loan recovery at the end of February 2014 and target achievement at the end of March 2014.

As per the guidelines issued by RBI and NABARD, LDCC Bank has established ALCO in LDCC Bank, Latur. Hence researcher observed that new economic policy affected positively on the working of LDCC Bank, Latur.
Table No. 5.6
Supplementary Financial Information Disclosed As Per RBI Guidelines For Asset Liability Management (Additional Disclosure)

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Particulars</th>
<th>31.03.2013</th>
<th>31.03.2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SLR investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>All permanent category</td>
<td>31660.57</td>
<td>31600.57</td>
</tr>
<tr>
<td>2</td>
<td>Non performing Non SLR investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Opening balance as on 1st April</td>
<td>903.79</td>
<td>881.49</td>
</tr>
<tr>
<td></td>
<td>Additional during the year</td>
<td>0</td>
<td>22.33</td>
</tr>
<tr>
<td></td>
<td>Reduction during the year</td>
<td>0</td>
<td>0.03</td>
</tr>
<tr>
<td></td>
<td>Closing Balance as at 31st March</td>
<td>903.79</td>
<td>903.79</td>
</tr>
<tr>
<td></td>
<td>Total Provision held</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>3</td>
<td>Movement in provision for non performing investment particulars</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td></td>
<td>Opening Balance</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Add Provision made during the year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Less Write off/write back of excess provision</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Closing Balance</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>4</td>
<td>Advance to Directors and relatives, companies, firms, etc</td>
<td>11277.14</td>
<td>8511.15</td>
</tr>
<tr>
<td></td>
<td>1. Fund based</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Non fund based</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Cost of deposits</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Average cost of deposits</td>
<td>6.81</td>
<td>6.9</td>
</tr>
<tr>
<td></td>
<td>Average cost of borrowings</td>
<td>7.37</td>
<td>7.22</td>
</tr>
<tr>
<td>6</td>
<td>Profitability</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest income as % of working funds</td>
<td>8.82</td>
<td>9.01</td>
</tr>
<tr>
<td></td>
<td>Non-interest income as %</td>
<td>0.02</td>
<td>0.06</td>
</tr>
<tr>
<td></td>
<td>Operating profit as % of working funds</td>
<td>3.34</td>
<td>1.48</td>
</tr>
<tr>
<td></td>
<td>Return on assets</td>
<td>0.48</td>
<td>0.77</td>
</tr>
<tr>
<td></td>
<td>Business (deposits+advances) per employee</td>
<td>415.03</td>
<td>312.62</td>
</tr>
</tbody>
</table>

Note: Deposit do not include other Banks deposit

(Source: Annual Report of LDCC Bank, Latur 2012-13)

5.11 RECOVERY MANAGEMENT IN DCCBs

In the coming years Credit Risk Management and Asset Liability Management will become two aspects of risk management. Loans and advances typically represent 60 percent or more of bank’s assets. Consistently reducing credit losses by half percent translates into a much larger return on equity. Further, a half percent reduction in losses on 70 percent asset can increase Return on Asset by 30 percent. Poor recovery results in increase of NPA. NPA is a double edged sword which affects profitability at one end and increase the provisioning requirement at the other. The gross NPAs of Indian banks stood at 17.75% of total gross advances as 31st March, 1997, fairly high compared to international norms (RBI Annual Report 1997). NPA, besides eroding the
net profits of banks on account of income loss and the provision to be made, also increases the cost of credit management, including monitoring and inspection. They also deprive the bankers of their valuable time which otherwise would have been spent in business development and new business by getting them fogged down with litigation and various procedures for recovery of NPAs.

A research study by DSP Merry Lynch has found that loan yields improve by 15 basis points for every 1% reduction in net NPA ratio and provisions for loan losses reduce by 20 basis points for 1% drop in net NPA ratio. It is also pertinent to note that banks currently provide in excess of 1.5% of their outstanding loans as provisions (Source: DSP Merry Lynch Report lit India Banking, 1997).

a. Ensuring prompt and timely repayment of loans and interest thereon by the borrowers is central to the smooth recycling of bank credit.

b. The lending capacity of bank is adversely affected due to the banks' inability to recycle its resources or raise additional resources from other sources. Non-recovery of interest on loans affects the banks' profitability.

c. The SCBs and DCCBs will set up separate 'Recovery Cell' to guide the branch managers, recovery officials in their recovery efforts.

d. The recovery Cell will have close coordination and full cooperation of the Legal and Arbitration Sections.

e. The SCBs and DCCBs will take all necessary steps for ensuring quality advances.

f. Recovery drive will be maintained by the bank throughout the year than initiating recovery steps towards the end of the year.

g. The bank will ensure all necessary legal steps to recover the NPAs and coercive recovery methods will not be resorted to.

h. The banks will put in place an appropriate Arbitration Process and execution process of awards by the Arbitrators.

i. The provisions of SARAFESI Act and Debt Recovery Tribunals will be adhered to in the process of recovery of dues and overdue.

LDCC Bank, Latur has set up a separate 'Recovery Cell' to guide the branch managers, recovery officials in their recovery efforts. This recovery cell has close coordination and full cooperation of the Legal and Arbitration Sections. LDCC Bank has 112 branches therefore bank has appointed 10 field officers at taluka level and 90 inspectors at the village level for the effective loan recovery purpose. These inspectors are concerned with the matters of loan disbursement, proper utilisation of
loan and loan recovery. For the assistance of field officers, bank has appointed the inspectors. In the case of default customer, bank issues three notices to him and them also he is not giving any positive response, bank put that matter in Legal and Arbitration Sections. LDCC Bank requires less effort for the recovery of agriculture loans because they are secured, but non agriculture loans takes more time for the recovery. Though the non-agriculture loans are mortgaged, the mortgage property may not be in a good position. In such cases, bank takes the possession of property and may give that property to other person for operating purpose or sell out that property and recover the loan amount.

Due to the impact of New Economic Policy and various circulars regarding recovery management, LDCC Bank, Latur has been implementing the guidelines regarding recovery management issued by RBI and NABARD. The bank is following all necessary legal steps to recover the NPAs. This resulted into heavy loan recovery and eyecatching reduction in outstanding and overdue agriculture loan. Due to the effective set up of recovery network for loan recovery and constant efforts of recovery manager, field officers, and inspectors the agriculture loan recovery percentage of bank was increased to 93.28% in the year 2012-13 which was 32.34% in the year 2001-02.

Loan Recovery of LDCC Bank, Latur at the end of 31 March 2013 / 30 June 2013

LDCC Bank has total 113 branches in 10 talukas of Latur district. In those 10 talukas, 101 branches are performing agricultural business activities.

Table No. 5.7 reveals the information regarding 100 % loan recovery branches and primary agriculture cooperative societies at the end of 31 March 2013 / 30 June 2013.

LDCC Bank Latur has 101 branches in Latur district which are engaged in agriculture business activities. In that 101 branches, 583 primary agriculture societies are performing their activities, out of 583 PACS, 311 PACS has 100% loan recovery by LDCC Bank.

The highest performing of loan recovery was observed in Renapur taluka (87%), Latur taluka (74%), Ahmadpur (59%), Nilanga taluka (55%), Deoni taluka (54%).

The lowest loan recovery was observed in the Ausa taluka (32%). Udgir taluka (44%), Jalkot taluka (36%), Chakur taluka (40%) and Shirur Anantpal taluka (33%).

The overall loan recovery percentage was 53% for the year 2012-13. It was due to implementation loan recovery policy, constant efforts of bank’s staff for loan recovery, cooperation from farmers, etc.

Table No. 5.7

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Taluka</th>
<th>Branches Engaged in Agriculture Business</th>
<th>100 % Loan Recovered Branches</th>
<th>Affiliated PACS</th>
<th>100% Loan Recovered PACS</th>
<th>Not 100% Loan Recovered PACS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Latur</td>
<td>20</td>
<td>10 (100)</td>
<td>81</td>
<td>60 (74)</td>
<td>21 (26)</td>
</tr>
<tr>
<td>2</td>
<td>Renapur</td>
<td>06</td>
<td>04 (100)</td>
<td>53</td>
<td>46 (87)</td>
<td>07 (13)</td>
</tr>
<tr>
<td>3</td>
<td>Ausa</td>
<td>14</td>
<td>02 (100)</td>
<td>76</td>
<td>24 (32)</td>
<td>52 (68)</td>
</tr>
<tr>
<td>4</td>
<td>Nilanga</td>
<td>14</td>
<td>-- (100)</td>
<td>100</td>
<td>55 (55)</td>
<td>45 (45)</td>
</tr>
<tr>
<td>5</td>
<td>Udgir</td>
<td>10</td>
<td>01 (100)</td>
<td>62</td>
<td>27 (44)</td>
<td>35 (56)</td>
</tr>
<tr>
<td>6</td>
<td>Deoni</td>
<td>07</td>
<td>02 (100)</td>
<td>35</td>
<td>19 (54)</td>
<td>16 (46)</td>
</tr>
<tr>
<td>7</td>
<td>Jalkot</td>
<td>03</td>
<td>-- (100)</td>
<td>36</td>
<td>13 (36)</td>
<td>23 (64)</td>
</tr>
<tr>
<td>8</td>
<td>Ahmadpur</td>
<td>09</td>
<td>06 (100)</td>
<td>70</td>
<td>41 (59)</td>
<td>29 (41)</td>
</tr>
<tr>
<td>9</td>
<td>Chakur</td>
<td>10</td>
<td>02 (100)</td>
<td>43</td>
<td>17 (40)</td>
<td>26 (60)</td>
</tr>
<tr>
<td>10</td>
<td>Shirur Anantpal</td>
<td>08</td>
<td>-- (100)</td>
<td>27</td>
<td>9 (33)</td>
<td>18 (67)</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>101</td>
<td>27 (100)</td>
<td><strong>583</strong></td>
<td><strong>311</strong></td>
<td><strong>272</strong></td>
</tr>
</tbody>
</table>

Note: Figures in bracket indicates percentage to total.
(Source: Data compiled from Annual Report 2012-13 of LDCC Bank, Latur)
5.12 KNOW YOUR CUSTOMER (KYC) NORMS / ANTI-MONEY LAUNDERING (AML) STANDARDS/ COMBATING OF FINANCING OF TERRORISM (CFT)/OBLIGATION OF BANKS UNDER PREVENTION OF MONEY LAUNDERING ACT (PMLA), 2002

Circular RPCD.CO.RRB.RCB.AML.No.6097/07.51.018/ 2012-13 dated December 13, 2012 RBI/2012-13/410

The said circular is on simplification of Know Your Customer (KYC) norms / Anti-Money Laundering (AML) Standards/Combating of Financing of Terrorism (CFT)/ Obligation of banks under PMLA, 2002.

In the same regard NABARD has also issued circular No.39/Dos 6/2008 dated 17 March 2008 Ref. No.NB.DoS.HO.Pol./4730/J.1/2007-08 advised all SCBs and DCCBs to ensure a proper frame-work on ‘Know Your Customer’ (KYC) norms and ‘Anti-Money Laundering’ (AML) measures is put in place with the approval of the Board of Directors and it was also envisaged that all the banks will be fully compliant with the provisions of the said circular.

As per the said circular, the banks were required to lay down a clear Customer Acceptance Policy (CAP) based on the risk categorisation and advise their branches to prepare suitable customer profiles containing information relating to customers identity, social/financial status, nature of business activity, information about his clients business and their location, etc. with due diligence for high risk customers.
As per the said circular, the banks were also required to have an elaborate Customer Identification Procedure (CIP).

As per the PMLA banks are to maintain records of more than rupees ten lakhs, cash transactions integrally connected to each other, counterfeit currency transactions, suspicious transactions, whether or not made in cash.

In India, The Reserve Bank of India has been issuing guidelines on KYC regularly. Some of the more important instructions are mentioned below.

In August 2002, the Reserve Bank reinforced its instructions stating:
1. The key principle of the “know your customer” procedure should be the identification of an individual/ corporate opening an account. This should entail an introductory reference from an existing account holder/ person known to the bank.
2. The board of directors must have in place adequate procedures to verify the bona fide identification of individuals. There should also be processes to monitor transactions of a suspicious nature.
3. This instruction raised the requirement of giving PAN to transactions of Rs. 50,000 or more (earlier it was Rs. 10,000 – August 1976).
4. There must be good control systems plus audits and checks to ensure the bank adheres to its KYC policies.
5. There should be a system at branch level to ensure that lists of terrorist entities are circulated so that accounts/ transactions are not opened/ consummated.
6. Transactions of a suspicious nature must be reported to the appropriate authorities.
7. It should be ensured that all the laws are adhered to.

In May 2004, it was stated that information collected from the customer for KYC purposes should not be used for cross selling.

In November 2004, the RBI issued comprehensive guidelines. These reiterated that the objective of Know Your Customer (KYC) guidelines is to prevent banks from being used, intentionally or unintentionally, by criminal elements for money laundering activities or for the financing of terrorism. KYC procedures also enable banks to know / understand their customers and their financial dealings better which in turn help them manage their risks prudently. The guidelines are applicable to foreign currency accounts / transactions and to all new accounts.

Banks have been asked to frame their KYC policies incorporating the following four key elements:
1. Customer Acceptance Policy
2. Customer Identification Procedures
3. Monitoring of Transactions
4. Risk management

For the purpose of KYC policy, a ‘customer’ has been defined as:

- A person or entity that maintains an account and / or has a business relationship with the bank;
- One on whose behalf the account is maintained (i.e. the beneficial owner). This includes beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and
- Any person or entity connected with a financial transaction, which can pose significant reputation or other risks to the bank, such as a wire transfer or issue of a high value demand draft as a single transaction.

5.12.1 CUSTOMER ACCEPTANCE POLICY (CAP)

There must be a clear customer acceptance policy that lays down explicit criteria for acceptance of customers. The Customer Acceptance Policy must ensure that explicit guidelines are in place on the following aspects of customer relationship in the bank.

- No account is opened in anonymous or fictitious/ benami name(s);
- Parameters of risk perception are clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc. to enable categorization of customers into low, medium and high risk (banks may choose any suitable nomenclature viz. level I, level II and level III); customers requiring very high level of monitoring, e.g. Politically Exposed Persons (PEPs) may, if considered necessary, be categorized even higher;
- Documentation requirements and other information to be collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of the Prevention of Money Laundering (PML) Act, 2002 and guidelines issued by Reserve Bank from time to time;
- Accounts should not be opened nor should an existing account be closed where the bank is unable to apply appropriate customer due diligence measures i.e. bank is unable to verify the identity and / or obtain documents required as per the risk
categorization due to non-cooperation of the customer or non-reliability of the data / information furnished to the bank.

- There must be checks before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations etc.

- Banks should prepare a profile for each new customer based on risk categorization. The customer profile must contain information relating to the customer's identity, social / financial status, nature of business activity, information about his clients' business and their location etc.

It is important to bear in mind that the adoption of customer acceptance policy and its implementation should not become too restrictive and must not result in denial of banking services to general public, especially to those, who are financially or socially disadvantaged.

5.12.2 CUSTOMER IDENTIFICATION PROCEDURE (CIP)

The policy approved by the board of banks should clearly spell out the Customer Identification Procedure to be carried out at different stages i.e. while establishing a banking relationship; carrying out a financial transaction or when the bank has a doubt about the authenticity / veracity or the adequacy of the previously obtained customer identification data. Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information. Banks need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of banking relationship.

1. For customers that are natural persons, the banks should obtain sufficient identification data to verify the identity of the customer, his address / location, and also his recent photograph.

2. For customers that are legal persons or entities, the bank should:
   - Verify the legal status of the legal person/ entity through proper and relevant documents;
   - Verify that any person purporting to act on behalf of the legal person / entity is so authorized and identify and verify the identity of that person;
3. Understand the ownership and control structure of the customer and determine who are the natural persons, who ultimately control the legal person.

4. Banks may frame their own internal guidelines based on their experience of dealing with such persons/entities, normal bankers' prudence and the legal requirements as per established practices.

5. It should be noted that wherever banks desire to collect any information about the customer for a purpose other than KYC requirements, it should not form part of the account opening form. Such information may be collected separately, purely on a voluntary basis, after explaining the objectives to the customer and taking his express approval for the specific uses to which such information could be put.

6. There must be Know Your Customer procedures for existing customers.

7. Banks are expected to have adopted due diligence and appropriate KYC norms at the time of opening of accounts in respect of existing customers. However, in case of any omission, the requisite KYC procedures for customer identification should be completed at the earliest. Additionally, banks must, on the basis of materiality, apply the KYC guidelines to all existing accounts.

8. Transactions in existing accounts should be continuously monitored and any unusual pattern in the operation of the account should trigger a review of the customer confidential documentation measures.

9. Where the bank is unable to apply appropriate KYC measures due to non-furnishing of information and or/ non-cooperation by the customer, the bank should close the account or terminate the relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken at a reasonably senior level.

10. To ensure that existing small account holders are not inconvenienced and the KYC procedure is completed in time, banks may limit the application of KYC procedures to existing accounts where the credit or debit summation for the financial year ended March 31, 2003 is more than Rs.10 lakh or where unusual transactions are suspected.

11. KYC procedures must applied to all existing accounts of trusts, companies/firms, religious/charitable organizations and other institutions or where the accounts are opened through a mandate or power of attorney.

5.12.3 MONITORING OF TRANSACTIONS

Ongoing monitoring is an essential element of effective KYC procedures. Banks can effectively control and reduce their risk only if they have an understanding
of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account.

Banks should pay special attention to all complex, unusually large transactions and all unusual patterns, which have no apparent economic or visible lawful purpose. The bank may prescribe threshold limits for a particular category of accounts and pay particular attention to the transactions which exceed these limits.

Transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer should particularly attract the attention of the bank. Very high account turnover inconsistent with the size of the balance maintained may indicate that funds are being washed through the account. High-risk accounts have to be subjected to intensified monitoring.

Every bank should set key indicators for such accounts, taking note of the background of the customer, such as the country of origin, sources of funds, the type of transactions involved and other risk factors. Banks should put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures.

Banks should ensure that a record of transactions in the accounts is preserved and maintained as required in terms of section 12 of the PML Act, 2002. It may also be ensured that transactions of a suspicious nature and / or any other type of transaction notified under section 12 of the PML Act, 2002, is reported to the appropriate law enforcement authority.

Banks should ensure that its branches:

a. Continue to maintain proper record of all cash transactions (deposits and withdrawals) of Rs.10 lakh and above.

b. Have an internal monitoring system that has an inbuilt procedure for reporting of large cash transactions and those of a suspicious nature to controlling/ head office on a fortnightly basis. Early computerization of branch reporting will facilitate prompt generation of such reports.

c. Report transactions of a suspicious nature to the appropriate law enforcement authorities designated under the relevant laws governing such activities.

d. Have well laid down systems for freezing of suspicious accounts.

e. There must be quarterly reporting of suspicious accounts to the audit committee of the board or the board of directors.
LDCC Bank, Latur is following the guidelines issued by RBI and NABARD regarding KYC norms and Anti Money Laundering Standards. For fulfilling the KYC norms, LDCC Bank provides a KYC Application Form to customers while opening an account in bank. The form contains the identity details such as name of applicant, father's name, gender, marital status, date of birth, nationality, PAN, UID/Aadhar; Address details such as address for correspondence, contact details; and other details such as gross annual income, occupation, etc. Along with these details LDCC Bank takes a signed declaration from the applicant regarding correctness and truthiness of information.

The PMLA 2002 and the Rules specified there under (Rule 3), requires the Bank to monitor and furnish the following types of transaction reports: Rule 3, sub-rule (A) and (B) of the Prevention of Money Laundering Rules, 2005 require Banks to monitor and report cash transactions that meet the following criteria:

a. All cash transactions of the value of more than Rupees ten lakhs (Rs.10,00,000) or its equivalent in foreign currency; and

b. All series of cash transactions integrally connected to each other which have been valued more than rupees ten lakhs (Rs. 10,00,000) or its equivalent in foreign currency where such series of transactions have taken place within a calendar month.

LDCC Bank collects Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) from its all branches monthly as per the norms prescribed by RBI. These reports are further send online to Financial Intelligence Unit, Delhi every month. In the CTR, Bank denotes a high amount of cash activity i.e. 10 lakhs and above within the accounts of a customer. And a STR denotes unusual or a typical activity within the account of a customer.

5.13 'FINANCIAL INCLUSION' AND 'NO FRILLS ACCOUNT'

The bank will initiate necessary steps for vigorous 'Financial Inclusion' of vast section of population who have not been covered by the banking system, particularly the pensioners, self-employed and those employed in the unorganised sector, etc.

The bank will review the existing practices to align themselves with the objective of 'Financial Inclusion' and facilitate banking by opening 'No Frills Account’ either with nil or low minimum balances as well as charges that would make such accounts accessible to vast sections of population.
The bank also will take necessary initiatives and develop appropriate IT solutions which are highly secure, amenable to audit and follow widely accepted open standards to allow inter-operability among different systems adopted by different banks.

LDCC Bank Latur has implemented the guidelines issued by Dr. C. Rangarajan, a committee set up by Govt. of India on Financial Inclusion. As per the recommendation of C. Rangarajan Committee, NABARD has issued the guidelines to all cooperative banks LDCC Bank, Latur has opened the accounts with zero balance of maximum members as per the Financial Inclusion Programme.

Under Financial Inclusion Programme, the Board of directors of LDCC Bank decided to establish “Financial Literacy Center” to spread financial literacy among common people. In this regard, LDCC Bank Latur submitted a proposal to National Bank.

LDCC Bank Latur appointed a Financial Literacy Coordinator at taluka level under the Direct Benefit Transfer (DBT) for transforming various grants of govt. to the saving accounts of respective customers. These Financial Inclusion coordinator opens the new saving accounts of customers and link them with Aadhar Card, LDCC Bank has been playing a crucial role in linkage of saving accounts with Aadhar Cards and spread financial literacy among common public under the Financial Inclusion Programme.

5.14 GRIEVANCES REDRESSAL MECHANISM IN DCCBs

a. The bank would provide due publicity to this Code, inform the shareholders in the shareholders meeting or otherwise about the Code, upload in the bank’s website and make available copies of the Code to the customer on request.

b. The customers/clientele of SCBs and DCCBs are primarily from rural and semi urban areas and are far from empowered. They are required to be protected by ‘Codes of Fair Practices’, specifically designed, keeping their profile in view.

c. The SCBs and DCCBs while adopting ‘Codes of Fair Practices’ should ensure that the availability of Codes is well publicised. It should also be ensured that the Codes are displayed in the Notice Board of the bank, and other facilities of the bank, prominently.

d. Each SCB/DCCB shall designate a senior officer as ‘Nodal Officer’ with adequate staff to implement and monitor the code as well as redress the grievances.
e. The bank should ensure that the redressal machinery put in place is staffed by appropriately motivated personnel as well as take swift corrective action on the grievances of its customers to establish the credibility of the ‘Codes of Fair Practices’ adopted by the bank.

f. The staff of the bank at all levels should appropriately be oriented towards the Codes and ensure that the same is implemented in its letter and spirit.

g. The Board of Directors/Committee Members of the bank should be appropriately oriented in the ‘Codes of Fair Practices’ of the bank and should take initiatives for popularising the Code and work towards effective implementation of the same.

h. If the customer wants to make a complaint, the bank will tell him how to do this and what to do if he is not happy about the outcome. The staff will help the customer with any questions he may have.

i. Within two weeks of receiving such complaint/s, the bank will send a written acknowledgment.

j. After examining the matter, the bank will send the customer its final or other response within eight weeks and will inform him how to take his complaint further if he is still not satisfied.

k. The ideal redressal mechanism of a complaint could be:

1. **Branch** – Branch Manager is the competent authority to address the complaints on performance/grievances with regard to his staff.

2. **Controlling Office/Regional Office**, under whose jurisdiction the branch falls will have to look into any complaints received against the branch and dispose of the same.

3. **Head Office** – Chief Executive/Chairman will dispose of the complaints received against the Controlling Office/Regional Office.

a. In the absence of ‘Banking Ombudsman Scheme’ for SCBs and DCCBs an appropriate Ombudsman Scheme may be devised by RBI/NABARD, in due course, for addressing the grievances appropriately.

LDCC Bank, Latur has Grievance Redressal Mechanism. It is the impact of new economic policy on functioning of LDCC Bank, Latur. Bank has designated a senior officer as ‘Nodal Officer’ from Personnel Department to solve the customer queries, redress the grievances and satisfy them. The personal manager is performing the duties of nodal officer for providing information on various issues. He is available for 24 hours in a day on telephone. If the customer wants to make a complaint, the bank will tell him how to do this and what to do if he is not happy about the outcome.
The staff will help the customer with any questions he may have. The helpline number and the mobile number of personnel manager is available on the website of bank. If the complaint could not be solved by nodal officer, he put the complaint in front of Managing Director and he will guide on appropriate way.

In this way, LDCC Bank, Latur has maintained its creditability among its customers by taking corrective actions on the grievances.

5.15 DEVELOPMENT OF INFORMATION TECHNOLOGY IN COOPERATIVE BANKING

Worldwide financial systems have undergone structural changes. Specially, in India tremendous developments are made in banking sector due to the adoption of New Economic Policy. The factors driving these changes are advancement in technology and computing and financial liberalization. Banking has no exception to these changes. These developments are instrumental in information of a ‘global village’ making the dividing line between banking products and their geographical locations irrelevant. Globalization of banking operations and expansion of financial activities as a result of technology advancement, in an increasingly market driven environment, have redefined the business models and changed the way the banks used to do the banking business. The banking industry has virtually seen a shift from brick and mortar banking to banking across zones, geographical reach and alternate service delivery channels.

Computerization in banks enabled them to take on their business on computers, resulting in operational efficiency and better customer service.

The first place of computerization was taking all the data from manual systems on computers has been long back over in Co-operative banks in India. This was done for back office functions. Even the second phase of commencing front office functions on-line on computers is over. Co-operative banks are half way through the third phase of core banking solutions and commencing alternate delivery channels. All the major and some smaller banks have completed the third phase also and remaining are on way to pursue it. In banks, the customer delivery channel was only across the counters. Now with technology advancement, various service channels are available to customer without his coming to the counter. These are the alternate channels like ATMs, Credit Cards, Debit Cards, Smart Cards, RTGS and other fund transfers, SMS banking, net banking and phone banking. Besides customer

259
service, banks have now achieved computerized MIS, statement submissions, fraud preventive measures, exceptional transaction controls; audit trails for effective audit, data analysis based marketing, reduced transaction costs, customer relationship management (CRM) etc. Manpower requirement has reduced to great extent. All this has brought the cost of funds and transaction cost down thereby improving profit.

RBI has published ‘Financial Sector Technology Vision’ document in June, 2007. The mission statement of the vision document is: ‘It is for efficiency and excellence’. The corporate objective for the vision is, ‘Enabling financial sector to leverage on IT for better customer service, improved housekeeping and overall systemic efficiency.

Information Technology (IT) continues to be the single largest facilitating force behind the successful transformation of transactions and analytical processing of banking business in the country. These are now several service providers for network based communications. The quality and speed operative service is no more issue now.

RBI has commenced Online Return Filing System (ORFS). This will make the bank submission data to RBI less cumbersome.

With computerization now established, RBI is proposing for scheduled commercial banks to calculate interest on Saving Accounts on daily balance basis from 1st April, 2010.

Electronic Funds Transfer (EFT) system, now renamed as National Electronic Funds Transfer (NEFT) system, Electronic Clearing System (ECS), and Real Time Gross Settlement (RTGS) systems have also been introduced in all major cities in India.

COMPUTERIZATION OF LDCC BANK, LATUR

In banking business, the needs of hour are accuracy and prompt services. Therefore, LDCC Bank has computerized its total 112 branches. In the head office, there is a separate section of computer. And all the tasks are performed on computer. All the branches are connected to head office with the help of network for the purpose of data transfer and collection. Bank has completed the task of computerization of 112 branches at the end of March 2013.

As per the directions of NABARD, LDCC Bank started CBS system and provided Core Banking facility to its customers at the end of December 2012. At present, all the branches of LDCC Bank become online under Core Banking System.
In near future, bank is going to provide the latest banking facilities like RTGS/NEFT, ATM, etc.

5.16 ROLE OF NABARD IN COOPERATIVE BANKING

The New Economic Policy began to reach up to the grass route level since 1991. The agricultural economy was playing the major role and responsibility of providing finance to agriculture and farmers were mostly entrusted to co-operative sector. Obviously, The District Central Co-operative Banks were playing most significant role in availing funds from NABARD and State Co-operative Banks and disbursing it to farmers through Primary Agricultural Co-operative Societies. As such, the study of a District Central co-op. Bank, as one of the representative bank, has its special significance.

The researcher is quite confident that this study of the bank will prove to be a remarkable effort in this direction. The rural credit policy adopted by the Govt. of India, and the state government after independence, is based mainly on the recommendations of all India rural credit survey committee: 1954, which recommended the integrated system of rural credit. Since then, the share of cooperatives in farm finance has considerably increased. Many commissions, committees and working groups have gone through details of the problems of rural credit recommended changes and reforms in the light of experience. However, basic framework of rural credit remained substantially the same even today.

National Bank for Agriculture and Rural Development (NABARD) is an apex development bank in India. It has been accredited with “matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India”.

NABARD was established by an act of Parliament on 12 July 1982 to implement the National Bank for Agriculture and Rural Development Act 1981. It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India and Agricultural Refinance and Development Corporation (ARDC). It is one of the premiere agencies to provide credit in rural areas.

NABARD is set up as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote

integrated and sustainable rural development and secure prosperity of rural areas. It provides short term finance assistance for period of 18 months to state co-operative banks, commercial banks, RRBs, and so on for wide range of activities in the areas of production, trading, marketing and storage. It also gives loans up to 20 years of maturity to the state government to enable them to subscribe to the share capital of co-operative credit societies. NABARD serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas. NABARD takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.

NABARD co-ordinates the rural financing activities of all institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India (RBI) and other national level institutions concerned with policy formulation and also undertakes monitoring and evaluation of projects refinanced by it.

NABARD’s refinance is available to State Co-operative Agriculture and Rural Development Banks (SCARDBs), State Co-operative Banks (SCBs), Regional Rural Banks (RRBs), Commercial Banks (CBs) and other financial institutions approved by RBI. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, State-owned corporations or co-operative societies, production credit is generally given to individuals.

The capital of NABARD is at Rs. 2000 crores subscribed by the Government of India and Reserve Bank of India during the year 2010 in contrast to initial capital of Rs. 100 crores.

FUNCTIONS OF NABARD

- Long term finance for minor irrigation facilities, plantations, horticulture, land development, farm mechanizations, animal husbandry, fisheries etc.
- Short term loan assistance for financing of seasonal agricultural operations, marketing of crops, purchase/procurement/distribution of agricultural inputs etc.
- Medium loan facilities for approved agricultural purposes;
- Working capital refinance for handloom weavers
- Refinance for financing government-sponsored programmes such as IRDP, Rozgar Yogna etc.
Acts as a coordinator in the operations of rural credit institutions

Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development

Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development

Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development

Acts as regulator for cooperative banks and RRBs

5.16.1 KISAN CREDIT CARD (KCC) SCHEME

Provision of timely and adequate credit has been one of the major challenges for banks in India in dispensation of agricultural and rural credit. Constant innovation is required in order to achieve the aim. An agricultural credit card is not a new concept in the field of agricultural banking in India. The scheme had already been introduced in a number of public sector banks in a few states much earlier. These schemes were niche-marketed and were exclusively preserved for the privileged class of farmers and the small and marginal farmers did not have much access to them. Similarly cash credit facilities were being extended by several public sector banks and cooperative banks to farmers with the view to improving their access to credit. Again this scheme was used only selectively. The KCC scheme was started by the Government of India in consultation with the RBI and NABARD in 1998-99 to combine the features of both these schemes and overcome their shortcomings.

Kisan Credit Card (KCC) Scheme - Application of prudential norms

In regard to application of prudential norms to KCC accounts (c.f. para 11 of the Model KCC Scheme), the Reserve Bank of India have vide their letter PCD.CO.RF.BC.No.3/07.37.02/2003-04 dated 12 July 2004 modified the prudential norms in respect of advances granted for direct agricultural purposes, as under:

- a loan granted for short duration crops will be treated as Non-Performing Asset (NPA), if installment of the principal or interest thereon remains unpaid for two crop seasons beyond the due date;

- a loan granted for long duration crops will be treated as Non-Performing Asset (NPA), if installment of the principal or interest thereon remains unpaid for one crop season beyond the due date.
The above norms will accordingly be applicable in respect of KCC accounts. It is further advised that modifications, if any, made by RBI with regard to prudential norms from time to time will be applicable to KCC loans in future also.

Objectives
The scheme aims at providing adequate and timely credit for the comprehensive credit requirements of farmers for taking up agriculture and allied activities under single window, with flexible and simplified procedure, adopting the whole farm approach, including the short-term credit needs and a reasonable component for consumption needs, through Kisan Credit Card including repayment of farmer's dues to non-institutional lenders. The KCC can be issued through all rural and semi urban branches.

Eligibility
- short term crop loans to farmers, those who are owner cultivators/sharecroppers/bargadars;
- KCC can also be issued for meeting the short term production needs/working capital needs in respect of the allied activities like poultry, dairy, pisciculture, floriculture, horticulture etc;
- KCC scheme also covers term credits for agriculture and allied activities;
- KCC is issued to individual borrower only on merit and not to corporate body society, association, club, group etc;
- illiterate and blind persons intending to avail of this facility may be allowed after taking proper safeguard against misuse and tampering.

Repayment period
Short term credit/crop loans as well as working capital for agriculture and allied activities would be provided as revolving cash credit limit, repayable in 12 months. The medium term loan component will be repayable normally within a maximum period of 5 years, depending on the type of activity/investment, as per existing guidelines. The repayment period for the long term loan will be fixed based on the purpose of the loan and repaying capacity of the borrower.

Documents
- D.P. note for the sanctioned limit;
- loan agreement;
- letter of continuity;

- hypothecation of crop / assets to be created out of bank loan;
- if the sanctioned limit is more than Rs.50,000/- mortgage of land/or third party guarantee acceptable to the Bank.

Table No. 5.8
Kisan Credit Card – Crop Loan Beneficiaries and Loan Disbursement by LDCC Bank, Latur

<table>
<thead>
<tr>
<th>Year</th>
<th>Beneficiaries (In numbers)</th>
<th>Loan Disbursed (Rs.in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>81209</td>
<td>7370.54</td>
</tr>
<tr>
<td>2002-03</td>
<td>86082</td>
<td>8040.08</td>
</tr>
<tr>
<td>2003-04</td>
<td>95865</td>
<td>7727.59</td>
</tr>
<tr>
<td>2004-05</td>
<td>144685</td>
<td>7975.89</td>
</tr>
<tr>
<td>2005-06</td>
<td>151464</td>
<td>15810.9</td>
</tr>
<tr>
<td>2006-07</td>
<td>153087</td>
<td>20706.26</td>
</tr>
<tr>
<td>2007-08</td>
<td>83605</td>
<td>12889.31</td>
</tr>
<tr>
<td>2008-09</td>
<td>159842</td>
<td>23057.72</td>
</tr>
<tr>
<td>2009-10</td>
<td>107068</td>
<td>32832.24</td>
</tr>
<tr>
<td>2010-11</td>
<td>210108</td>
<td>40444.93</td>
</tr>
<tr>
<td>2011-12</td>
<td>154475</td>
<td>35127.55</td>
</tr>
<tr>
<td>2012-13</td>
<td>146806</td>
<td>34139.55</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1574296</td>
<td>246122.56</td>
</tr>
</tbody>
</table>

(Source: Annual Reports of LDCC Bank, Latur)

Table No. 5.8 exhibits the number of beneficiaries of Kisan Credit Card of LDCC Bank, Latur during the study period 2001-02 to 2012-13.

As the policy issued by NABARD, LDCC Bank has decided to disburse crop loan on Kisan Credit Card from the year 2004. LDDC Bank disburses the crop loan through Primary Agriculture Co-operative Societies directly to farmers. Farmers have provided the accounts for crop loan & they can transact up to their sanctioned loan transactions. Under the Kisan Credit Card crop loan is issued to the crops like pulses, oil seeds, sugarcane and other crops.

During the year 2001-02, the beneficiaries of KCC stood at 81209 farmers which rose to 146806 beneficiaries during the year 2012-13 presenting an increasing of 80.77% over base year and 29.25% over previous year.
The average of the data was 131191.33 during the study period in beneficiaries of Kisan Credit Card. The Kisan Credit Co-operative loan beneficiaries presented the normal growth trend during the study period due to the constant efforts of bank and co-operative from farmers.

During the year 2001-02, LDDC Bank has disbursed the crop loan under Kisan Credit Card of Rs.7370.54 lakhs which rose to Rs.34139.55 lakhs during the year 2012-13 presenting an increase of 363.18% over base year and 11.89% over previous year. The average annual growth rate was 1909.18% during the study period.

Kisan Credit Card-Crop loan remarked the average annual growth of 178.26% over base year and 12.17% over previous year.

The Kisan Credit Card-crop loan showed the normal growth during the study period due to implementation of efficient loan recovery policy of LDDC Bank.

5.16.2 SELF HELP GROUPS LINKAGE PROGRAMME OF LDCC BANK, LATUR

LDCC Bank, Latur has been playing a vital role in the establishment and strengthening of self-help groups. Particularly for self-help groups, bank has created a separate section named “Micro Finance” and appointed a coordinator at taluka level. The SHGs are working through 112 branches of bank. Women of Latur district have made an economic revolution through these SHGs. 10105 SHGs were created at the end March 2013.

Bank provides a statutory direction to the SHGs by giving proper training. LDCC Bank provides guidelines to SHGs for collection of savings, disbursement of loan, regular loan recovery, maintaining records, monthly meetings, social commitment through SHGs, etc. It accelerates the growth of SHGs. NABARD and LDCC Bank with their combine efforts organises the Leadership Development Programmes at village and taluka level.
Table No. 5.9
SHGs Bank Linkage Programme - Savings and Loan Disbursements by LDCC Bank, Latur

<table>
<thead>
<tr>
<th>Year</th>
<th>SHGs (In numbers)</th>
<th>Savings (Rs.in lakhs)</th>
<th>Loan Disbursed (Rs.in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>2387</td>
<td>178.00</td>
<td>146.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>3317</td>
<td>285.58</td>
<td>342.45</td>
</tr>
<tr>
<td>2006-07</td>
<td>4385</td>
<td>528.29</td>
<td>402.17</td>
</tr>
<tr>
<td>2007-08</td>
<td>5378</td>
<td>589.00</td>
<td>495.88</td>
</tr>
<tr>
<td>2008-09</td>
<td>6846</td>
<td>787.00</td>
<td>633.00</td>
</tr>
<tr>
<td>2009-10</td>
<td>7824</td>
<td>1345.00</td>
<td>948.00</td>
</tr>
<tr>
<td>2010-11</td>
<td>8812</td>
<td>1990.00</td>
<td>1566.00</td>
</tr>
<tr>
<td>2011-12</td>
<td>9640</td>
<td>2490.00</td>
<td>1995.00</td>
</tr>
<tr>
<td>2012-13</td>
<td>10105</td>
<td>5425.00</td>
<td>4806.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>58694</td>
<td>13617.87</td>
<td>11334.5</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>6521.56</td>
<td>1513.09</td>
<td>1259.38</td>
</tr>
</tbody>
</table>

(Source: Data Compiled from Annual Reports of LDCC Bank, Latur)

By observing the contribution of LDCC Bank, Latur towards SHGs, NABARD has approved LDCC Bank, Latur as Self Help Promoting Institute (SHPI) in December 2004. In the year 2006-07, 53 women were trained under Group Leader Training Programme. In the same year, NABARD put the target of 500 SHGs Linkage, and LDCC Bank successfully attained the target by providing the financial assistance to 551 SHGs of Rs. 90.55 lakhs and set up 56 Farmers’ clubs. Out of these 56 Farmers’ clubs, 28 clubs were approved by NABARD. By considering the contribution and efforts of LDCC Bank, Latur, NABARD awarded “SHGs Best Performance Award”, a State Level Award.

In the year 2008-09, LDCC Bank, Latur was awarded by “SHGs Best Performance Award”, a State Level Award.

Graph No. 5.2
SHGs, its Savings and Loan Disbursement through LDCC Bank, Latur.

Table No. 5.9 presents the details of SHG Linkage Programme, its savings and loan disbursement through the savings. NABARD has initiated the scheme of SHG Linkage Programme. LDCC is playing an active and major role in implementation of this scheme at rural level. LDCC Bank is the major contributor in the development of Latur district.

At the end March 2013, 10105 SHGs have their own funds of Rs. 54.25 crores, internal loan disbursement Rs. 48.60 crores, loan recovery Rs. 42.16 crores and loan outstanding were Rs. 5.90 crores.

At the end March 2013, for sounding functioning of SHGs, bank has given finance of Rs. 15.51 crores to 3627 eligible SHGs. Out of that finance, SHGs paid Rs. 12.83 crores and loan outstanding were Rs. 2.68 crores.

Table No. 5.10 provides the details of number of eligible SHGs and Bank’s contribution to them. LDCC Bank, Latur has contributed its own funds or giving encouragement to SHGs in Latur district. For the year 2012-13, LDCC Bank has provided the contribution in loan form of Rs. 1551 lakhs to 3627 SHGs. From the year 2004-05 to 2012-13, LDCC Bank, Latur disbursed the loan of Rs. 6282.16 lakhs to 18920 SHGs.
Table No. 5.10

SHGs Bank Linkage Programme – Own Contribution to Eligible SHGs by LDCC Bank, Latur

<table>
<thead>
<tr>
<th>Year</th>
<th>SHGs (In numbers)</th>
<th>Contribution (Rs.in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>121</td>
<td>11.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>408</td>
<td>59.71</td>
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<tr>
<td>2006-07</td>
<td>967</td>
<td>170.45</td>
</tr>
<tr>
<td>2007-08</td>
<td>1346</td>
<td>263.00</td>
</tr>
<tr>
<td>2008-09</td>
<td>2288</td>
<td>582.00</td>
</tr>
<tr>
<td>2009-10</td>
<td>3102</td>
<td>1002.00</td>
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<tr>
<td>2010-11</td>
<td>3782</td>
<td>1367.00</td>
</tr>
<tr>
<td>2011-12</td>
<td>3279</td>
<td>1276.00</td>
</tr>
<tr>
<td>2012-13</td>
<td>3627</td>
<td>1551.00</td>
</tr>
<tr>
<td>TOTAL</td>
<td>18920</td>
<td>6282.16</td>
</tr>
<tr>
<td>AVERAGE</td>
<td>2102.22</td>
<td>698.01</td>
</tr>
</tbody>
</table>

(Source: Data Compiled from Annual Reports of LDCC Bank, Latur)

5.16.3 NATIONAL AGRICULTURE INSURANCE SCHEME (NAIS)

All crop loans under KCC are to be covered under National Agricultural Insurance Scheme (NAIS) in respect of the notified crops. It is implemented with the approval/consent of state government concerned, which is monitored and followed up by SLBC of that state.

The following crops are covered under NAIS:-

- food crops (cereals, millets, pulses);
- oil seeds;
- sugar cane, cotton and potato (annual commercial/annual horticulture crops);
- other crops as identified by the SLBC;

All farmers, both borrower & non borrower farmers, growing the above notified crops in the notified areas are eligible for insurance coverage.

In each district there is a nodal branch of each bank for receiving the premium for insurance coverage and remitting the premium to the Agricultural Insurance Corporation of India. Subsidy on premium is allowed in respect of small and marginal farmers.

LDCC Bank, Latur has taken efforts for getting the crop insurance claim to farmers of Rs. 334.60 lakhs up to the year 2012-13 from starting of this scheme. For the kharif season 2012, farmers paid the premium of Rs. 449 lakhs for the insured amount of Rs. 11975 lakhs and got the claim of Rs. 88.36 lakhs.

5.16.4 PERSONAL ACCIDENT INSURANCE SCHEME (PAIS)

The coverage under PAIS is also compulsory for all KCC holders. The banks are free to approach either any GIPSA member general insurance company or any private sector general insurance company, to take advantage of the competitive offers. However, the banks may, while negotiating with the insurers, keep in mind the guiding principles of PAIS, especially the premium sharing formula, coverage etc. The premium payable under the scheme is to be shared by the issuing Branch and the KCC holder in the ratio of 2:1.

The premium payable for a one-year policy is Rs.15/- while the same for a three year policy will be Rs.45/- only. The insurance coverage will be from the date of receipt of premium by the Insurance Company. Maximum age of the farmer is 70 years on the date of commence of policy.

As per the guidelines issued by NABARD, LDCC Bank, Latur has provided the coverage of Rs. 1 lakhs for accidental death, and for permanent/partial disability Rs. 50000. This coverage was available from the year 2001-02 to 2010-11. But from the year 2011-12, Bank has extended the limit of coverage as for accidental death Rs. 1.10 lakhs and for permanent/partial disability Rs. 55000.

For the year 2012-13, LDCC Bank, Latur provided the protection under accident insurance scheme to 189634 loan holders of 583 PACS. Bank has sanctioned the claim of 691 members of Rs. 7.07 crores up to the year 2012-13 from starting of this scheme.

5.16.5 NABARD'S FARMERS' CLUB PROGRAMME

Farmers’ Clubs are grassroots level informal forums. Such Clubs are organised by rural branches of banks with the support and financial assistance of NABARD for the mutual benefit of the banks concerned and rural people. The broad functions of the Farmers’ Clubs would be to:

- coordinate with banks to ensure credit flow among its members and forge better bank borrower relationship,
- organise minimum one meeting per month and depending upon the need, there would be 2-3 meetings per month.
interface with subject matter specialists in the various fields of agriculture and allied activities etc., extension personnel of Agriculture Universities, Development Departments and other related agencies for technical know-how upgradation.

- liaison with Corporate input suppliers to purchase bulk inputs on behalf of members,
- organise/facilitate joint activities like value addition, processing, collective farm produce marketing, etc.; for the benefit of members,
- Undertaking socio-economic developmental activities like community works, education, health, environment and natural resource management etc.

Farmers’ Club Programme, was launched by NABARD to propagate the five principles of “Development through Credit”.

The five principles are:

- Credit must be used in accordance with the most suitable methods of science and technology.
- The terms and conditions of credit must be fully respected.
- Work must be done with skill so as to increase production and productivity.
- A part of the additional income created by credit must be saved.
- Loan instalments must be repaid in time and regularly so as to recycle credit.

Farmers’ Club is an informal forum in the villages. It can be promoted in a village/cluster of villages, generally in the Operational Area of a Bank. While Farmers’ Club should have minimum of 10 members, no upper limit in the membership is envisaged. Every Club would have two office bearers - One ‘Chief Coordinator’ and the other ‘Associate Coordinator’. The office bearers would be elected by Club Members on a democratic basis for a term of two years. The office bearers should be residents of the area of the operation of the club. No NGO representative can be office bearer of the club. The main functions of the office bearers would be convening meetings, arranging meetings with experts, maintenance of Books of Accounts, Coordination with Bank, Line Departments of the State Governments, maintaining proper liaison with Bank

LDCC Bank promotes the farmers’ clubs and maintains social integrity. Now a day, farmers are using sophisticated and modern farm technologies for increasing farm production. In Latur district, LDCC Bank, Latur has set up 190 Farmers’ Clubs at the
end March 2013 for the purpose of information and technology exchange. Out of 190 Farmers’ Clubs, 188 Clubs are activated with the help of NABARD.

These clubs provide guidance on the various matters like increase in production and productivity, saving from increased income, regular repayment of bank loan, etc.

5.16.6 INTEREST SUBSIDY SCHEME

LDCC Bank has started Interest Subsidy Scheme by considering the instructions and guidelines of NABARD. The objective of this scheme is to reduce the percentage of outstanding loan and to increase loan recovery.

As per that direction, bank has implemented the policy to apply the simple interest to outstanding loan amount for lump sum loan recovery. Interest Subsidy Scheme gives the interest rate of 11% p.a. to the crop loan holders of Primary Agriculture Societies and 14 % p.a. to medium term loan holders. This scheme provides the financial subsidy to farmers and increases the percentage of loan recovery.

5.16.7 PROF. VAIDYANATHAN TASK FORCE FINANCIAL ASSISTANCE

As per the recommendations of Prof. Vaidyanathan Task Force, central and state governments have decided to rehabilitate the Primary Agriculture Societies. Under this assistance, LDCC Bank has represented the proposals for getting financial assistance through NABARD. LDCC Bank has submitted the proposals of 581 PACS of Rs. 124,18,99,000 to the state level committee. And under this assistance, 580 PACS for the finance of Rs. 124,09,54,000 from government. And the balance amount of Rs. 9.45 lakh is yet to come from government.

CONCLUSION

New Economic Policy is in itself is not bad for the cooperative movement, but it requires that all the DCCBs and LDCC Bank be prepared by equipping it with the facilities that would enable it to effectively compete with the private banks in the market.

LDCC Bank has survived in this market force forces and continued to grow in number and membership, with agricultural societies. The market forces have triggered a transformation in the structural organization of cooperative banks in the country. Thus, the indication is that new economic policy has given co-op banks the
opportunity to re-examine their organizational formations. In this regard LDCC Bank, Latur is increasingly diversifying their activities in order to respond to the challenges of the market and to satisfy the interests and demands of their members. Therefore LDCC Bank, Latur has managed to adopt to the new market system and recording better performance than other district central cooperative banks in Maharashtra.

Therefore, the future of cooperative banks in a liberalized economic environment seems to be bright and it will provide the benefits of the “new” mode of cooperation to a wider population in the country.
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